

IMPACT OF DEMONETISATION ON INDIAN ECONOMY - POST DEMONETISATION
ISSUES AND INTRICACIES

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ISBN - 978-93-88929-14-1



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IJCTI PUBLICATION



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#91-102-625, Brundavan DCM Layout, Davangere - 577004.
www.ijcti.org, Email : editor@ijcti.org

ISBN - 978-93-88929-14-1



9 789388 929141

“Impact of Demonetization on Indian Economy- Post-Demonetization Issues and Intricacies”

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About the Government First Grade College for Women, Davanagere:



The Government First Grade College (GFGC) for Women, Davanagere was established in August 2007 with just 127 students' enrollment. Initially the college was housed in the government P.U. College building with 3 different programs of B.A., B.Com. and B.B.M., Gradually the strength increased and now we can proudly say that the college has nearly 1000 girl students with one more new programme of B.Sc with PMCs and PCM combination adding to its feathers. Presently our college is running all the programmes in the independent new building located at the heart of the city in 2 acres of land. It is recognized under sections 2 (f) and 12(B) of the UGC Act, 1956. The institution was accredited by National Assessment and Accreditation Council (NAAC) with 'B' grade.

About the ARM First Grade College and PG Centre, Davanagere:



ARM First Grade College and PG Centre, SN Layout, Davanagere has established its academic reputation and credentials since its commencement in 1990 the college offers variety of courses like BA, B.Com & M.Com to cater to the needs of the students. Since, its inception the institution has grown to great height with well-equipped infrastructure.

Apart from providing University education we inculcate confidence & skills among students to compete in global environment & to face the challenges of life. We can proud to say that we encourage co-curricular activities through seminars, workshops, community visits along with NSS, NCC, Sports, Scouts and Guides, Artistic & Cultural activities. The rationale of our institution **“Uplift the students into higher education with all-round development”** reflected in our academic set up.

About the National Seminar:

Demonetization being the buzz word in the Indian economy has been used by the central government as a measure to remove the functioning of parallel economy. To curb the flow of black money and fake currency in the economy and control over the terrorists' funding, the central government took an initiative to remove the old Rs. 500 and Rs. 1000 notes and demonetized these currencies from the Indian markets. *This move is expected to cleanse the formal economic system and discard black money and fake currencies from the same.*

It was witnessed that demonetization is a very costly affair with printing of more currency notes. It caused severe cash crunch, job losses, decline in agricultural incomes, social disruption (impact on society because of demonetization), and GDP growth rate slowdown by 2 per cent. But it holds potential for some good results in the long run through higher rate of tax collection, inferior interest rates, discard of black money and fake notes, decline in corruption and private wealth, and increase in GDP. Therefore, it is necessary to study the impact of demonetization on Indian economy. A number of follow-up actions can minimize the costs and maximize the benefits of demonetization, which include tax reforms, reducing stamp duties & tax rates, incentives for tax compliance, and facilitate the digital economy. To achieve these specific objectives, policy makers and academicians must visualize a developmental strategy for the road ahead during post- demonetization period.

Demonetization is the act of stripping a currency unit of its status as legal tender. This step has been taken by the government to curb the black money from the society and hence, should be rightfully seen to set right the perverse incentive structure in the economy. Therefore, it is imperative to evaluate the short run, medium run and long term study and impact of this on the economy.

Therefore, there are many issues and intricacies were discussed pertaining to the new monetary policy of India in the form of Demonetization of nearly 80 percent of currency in circulation. With this background, the Department of Commerce, Government First Grade College for Women, Davanagere, State Bank of India, ADB, Davanagere & ARM First Grade College and PG Centre, Davanagere has organized **Two-day National Seminar**.

The contribution of the seminar outcome to the existing body of social science research:

1. It would be helping to know the Post-Demonetization effects on Indian Economy whether it is positive or negative.
2. It would help to know the Demonetization impact on GDP in short, medium & long run.
3. The policy makers and other agencies shall be making use result of this seminar report in understanding demonetization impact on Indian economy and to make policies regarding to improve the economic system.

ACKNOWLEDGEMENTS

It gives me an immense pleasure to present these papers with the hands of the redress. This slender book consists of the articles presented in the ICSSR, New Delhi, funded Two Day National Seminar Jointly Organized By Department of Commerce, Government First Grade College for Women, Davanagere, ARM First Grade College and PG Centre, Davanagere & State Bank of India, ADB, Davanagere, on the 13th and 14th October, 2017.

In the first place we would like to extend my thanks, on behalf of the staff of our institutions to Presidents, Directors and members of the Management Committees of our institutions for their constant support and encouragement to organizing the National Seminar.

We are extremely thankful and indebted to ICSSR, New Delhi for granting financial support to organizing the event.

We take this opportunity to express our sincere thanks to the Invitees, Resource Persons, Delegates, and Student Participants from various places.

Finally we thank our colleagues, non-teaching staff and all others who have spared no effort in steering the seminar towards success.

1. Dr. Dadapeer
Seminar Director

2. Dr. Kannkatti Jayanna
Convener of the
Seminar

3. Prof. D H Pyati
Seminar Co-Director

4. Mr. Mohammed Riyaz
Seminar Co-Director

5. Dr. Akram Basha S B
Organising Secretary

INDEX

SN	Title of the paper	Authors	Page No
1.	Demonetization Leading to Digitized Economy –Feasibility and Strategies	Dr. T. Manjunatha	1-4
2.	Demonetisation and its Shock on Indian Economy	Dr. KannakattiJayanna, Dr. Srinivas B G, and DrAkramBasha S B	5-15
3.	Does Demonetization Hurtle the Indian Economic System?	Nagaraju G, Mohamed Riyaz, and Bheemappa M	16-25
4.	Demonetisation: Costs and benefits to RBI	Sarala M S	26-34
5.	Demonetization and Black Money in India	Sateesha P	35-38
6.	Demonetization Mechanism and Complete Financial Inclusion	KadajjiShivappa	39-45
7.	Demonetization in India: Merits and Demerits	Dr. P G Deshpande, Marutesh B and ThimmareddyMeti	46-49
8.	Demonetization: A Sudden Move, Its Impacts	Raghavendra K and Vishwanath M H	50-56
9.	A study on Social impact of Demonetization in India	Prof. Vedamurthaaradhya and Prof. Annaiah M D	57-67
10.	Demonetization 2016 – An Analysis of Impact on Economy and Society in India	C Y Yashodha and Rupali Gupta	68-77
11.	Repercussion of Demonetization on Indian Economy	Dr. Veeresh M Kummur and Prof. B N Devendra	78-84
12.	Impact of Demonetization on the Income, Savings and Investment pattern of Salaried Class	Babu K A and Dr. Giridhar K V	85-90
13.	Impact of Demonetization in India	Prakash Gouda S U and PatilNataraja	91-95
14.	Demonetization and its effect on Indian Banking Sector	Dr. L Marulasiddappa	96-99
15.	A Study on Risks and Remedies of Small Scale Industrial Units	Ravikumar D L and Dr. Shobharani H	100-105
16.	Impact of demonetization on Indian Economy - A micro level analysis	Prof. Jaya Naik and Dr. Anilkumar	106-111
17.	Effects of demonetization on society – An overview	Mr. Laxman B H	112-116
18.	Demonetization and its Impact on Rural India – Issues and Challenges	Praveen Gujjar J, Zahid Hassan Kharuri and Dr. T. Manjunatha	117-122
19.	Demonetisation and its Impact on Economy and Socio - Cultural Sector in India	Purnima D Kambale	123-128

20.	Demonetization – Its impact on Indian economy	Dr.Padmaltha R and Vishwanath K N	141-149
21.	Demonetization and its Impact on Rural Population of India	Dr. Eswar Kumar Belli S	150-160
22.	Demonetisation: It's Impact on Indian Economy – Myths And Realities	Dr. Jaisheela B	161-169
23.	Demonetization and its Impact on Rural Society in India	Dr. C M Prakasha	170-175
24.	Demonetization and its Impact on Indian Economy	Dr. ParameshwaraNaik	176-186
25.	Impact of Demonetization on Indian Economy	Shivananda H D and Vinay Kumar M A	187-194
26.	Impact of Demonetization on Indian Economy-during the period of Muhammad-Bin-Tughlak	Dr. Shakuntala N	195-200
27.	Impact of Demonetization on Various Sectors and the Economy	Puttaraju B P	201-207
28.	Mining Labours and Demonetisation	H M Channabasavaiah and Prof. M.Jayaraj	208-214
29.	Demonetization of Indian Currency – A Synaptic view	Mr.Suhas D and Dr. H N Ramesh	215-222
30.	Negative and Positive impacts of Demonetisation on Indian Economy	Netravathi	223-235
31.	The Negative Impact of Demonetization	Dr. Hanumantharaya S R	236-241
32.	Demonetization: Effect on Different Aspects	Smt. Poornima S R	242-250
33.	Demonetization and cashless Economy: It's impact on Agriculture in India	Prashanth Kumar K N and Prahallada G	251-261
34.	Impact of Demonetization: An Insight towards Cashless Transaction in Campus	Dr. Swamy Tribhuvananda H V and Mr. Rakesh D	262-270
35.	A study on digital India - Challenges and Opportunities	Anuradha G S and Nagaraja C	271-279
36.	Demonetization and Digital Payments Rural India	Venkatesh Babu S and Dr. Shankarappa S	280-286
37.	A Study on Impact of Demonetization on Cashless Payment System	Dr. Sindhu, Shailaja A S and Renuka M Budihal	287-291
38.	Demonetisation: A Step to curb Black Money and Corruption	Dr. Supriya R	292-301
39.	Demonetization- A Step towards eradication of Corruption and Black money	Shantha Naik H	302-305
40.	Demonetization-A step towards eradication of corruption and black money	Smt Shridevi Narawade	306-316

41.	Surgical Strike on Black Money: Impact on Indian Economy	Smt. Poornima S R and Mallikarjun Kappi	317-322
42.	Demonetization and its impacts on Key Sectors	Ms. Snehal Bhosale	323-330
43.	Demonetization: Impact on Mutual Funds, Shares & Stock Market in India	Dr. Venkateshaiah J R	331-338
44.	Impacts of Demonetization on Education Sector	Prof. K B Manjunatha and Prof. L K Subhash	339-348
45.	Impact of Demonetization on Tourism Industry	Tulasi B V and Dr. Araskumar M R	349-353
46.	Impact of Demonetization on Indian Stock Market	Mr. Muttasha N and Ms. Uma S	354-363
47.	The Positive and Adverse effects of Demonetization in India	Santosh B Kabade	364-369
48.	Demonetization: Impact of Economic Reforms on Indian Agricultural Sector	Prof. Narasimhamurthy T N	370-376
49.	Demonetization and its Effects on Co-operative banks in India	Dr. R C Nagaraja	377-384
50.	Demonetization and its Impact on Indian Banking System	Ramesh Jadhav and Basavaraj	385-390
51.	Demonetization and Indian Banking Sector	Sherly Shubha J M and N Vanitha	391-398
52.	Demonetization in India: An Experience of Indian Banking System	Raghavendra L and Santhosh C M	399-408
53.	Demonetization: Impacts on Indian Banking System	Shambulingappa F Nallanavar	409-414
54.	Demonetization and its Impact on Indian Banking Sector	Smt. Jamunarani H S	415-424
55.	Demonetization-An impact on Indian Banking System	Mr. Sunil S, Mr. Ningaraju N S and Mr. Maruthi K	425-433
56.	Impact of Demonetization on Indian Banking System	Jayaram R and Veena K	434-441
57.	Demonetization- Indian Banking System	Mrs. Mohini Attimani and Miss Ashwija	442-448
58.	Unearthing the Efficacy of Demonetization and its Consequence on Indian Banking System	Dr. Mahendra Kumar Pattankar and Dr. Jagadish Hudagi	449-458
59.	Virtues and Vices of Demonetisation	B B Sunagar	459-462
60.	Demonetization in India: Expectations and Achievements	Mr. Harish Tigari and Sunitha	463-472
61.	Demonetisation: Challenges and Opportunities	Chythra P and Usha K R	473-479
62.	Social Impact of Demonetization: Social Climate of Fear	Dr. S P Naganagoud	480-493

63.	A Study on Impact of Demonetization over the Banking Sector with Reference to Davanagere City	Sunitha K B	494-499
64.	“Impact of Demonetisation on Banking System in India- A Study of Post Demonetisation Period”	Shilpa.C.Dharwad	500-507
65.	Impacts of Demonetisation on Indian Economy- Issues & Challenges	Mr.Mouneswara .T.N.	508-517



Demonetization Leading to Digitized Economy –Feasibility and Strategies

Dr. T. Manjunatha¹

Abstract

Indian government adopted demonetization to tackle with black money and make India a cashless digital economy. Demonetization has led to the rapid adoption of e-wallets, and credit and debit cards as a means of payment. Such digital payments have in a large way replaced cash transactions. This paper focuses on the impact of digitized economy on common person of India and also to study feasibility and strategies of digitized economy. Study shows that mixed Impact of demonetization on common persons and ethical, legal issues has been addressed properly.

Key words: *Black Money, Cashless, Demonetization, Digitized, Transformation.*

Introduction

Government of India took a historic decision by announcing that the high-denomination notes then in circulation would cease to be legal tender. With demonetization effort 86% of India's currency was nullified that aimed to wash the stock of 'black market's cash supply' and counterfeit notes out of the economy and convert it into the licit, banked and taxable, part of the economy. The reasons of it are as under: To tackle black money in the economy; To lower the cash circulation in the country which is directly related to corruption; To eliminate fake currency which have been used by terror groups to fund terrorism. The demonetization move by the Indian government would reduce the role of black money and will lead the country towards a digital economy but moving to a cashless system will take some time.

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Impact of digitized economy on common person of India.

The demonetization of Indian currency has created numerous hardships to common person but in long way it has lot of advantages.

- Unaccounted money held as cash which was not productive will become productive as it enters the legal system.
- Funding of terrorist and other illegal activities will be curtailed as they generally are funded by black/counterfeit money.
- To the extent the black money held by the political parties is flushed out, the elections in the near future will be clear and more transparent.
- Government can avail finances at lower rates and speed up the infrastructural spending creating huge job opportunities.

Feasibility and strategies of digitized economy.

The major security issues in internet selling has been listed below

- **Authentication:** Authentication is a process by which identifying and verifying the genuine user. It is one of the important phase in the security concern to avoid the misuse of the data
- **Authorization:** Authorization is a process identifying the genuine user whether that user having the rights to access the data or the resources. This authorization has to follow right after the authentication.
- **Confidentiality:** Confidentiality is a process to keep not disclosing the sensitive private data to unauthorized user. This confidentiality is very much needed in the e-business to gain customer confidence.
- **Integrity:** Integrity is a process to protect the data or the information being altered or tampered or destroying from the unauthorized user in any manner. Integrity helps in the building good customer relationship.
- **Non repudiation:** Non repudiation is a process of giving assurance that user is protected from refusing the services or any transaction by means of a digital signature.

Legal issues in Digitized economy

Digitization leads to following legal issues and need to be addressed in strategic manner.

- Fraud on the Internet
- **Intellectual Property**
- **Email Correspondence**
- Legal issues in website

Maintaining confidentiality

Having the world's most complicated password isn't a great deal of use if someone can easily find out what it is. Be sure you do the following:

- Don't write your password down on a piece of paper near your computer.
- Don't keep banking passwords and PINs in your wallet/purse.

Don't keep your passwords stored on your computer. Avoid, if you can, having your computer "remember" passwords, especially if the computer is used by different people. Website need to be protected from the following issues those are the unique underlying design of a Web page and its contents it may include

- links
- video
- original text
- audio
- graphics
- html and other unique markup language sequences
- List of Web sites compiled by an individual or organization and all other unique elements that make up the original nature of the material.

The Short-Term Vs. The Longer-Term Implications of Demonetization

The Short-term Impacts:

There will be a disruption in the current liquidity situation as households are likely to get affected by the note exchange terms laid by the government. Though clarity is unfolding on this, commodity transactions and general cash market transactions are likely to feel an immediate impact. It is important to note that a significant percentage of the Indian workforce

is employed in this sector, which is likely to be affected by immediate liquidity issues. Overall, negative impact on disposable income is expected along with likely disruption in the consumption patterns of the general populace. It is estimated that there will be a negative GDP impact in the current quarter as consumption gets a shock in the immediate term.

The Longer-term Implications:

This essentially represents a change in regime for the real and financial economy. Domestically, there could be some confusion as the effect will be disproportionately felt by the lower and upper income classes. Internationally, the government is likely to get thumbs up for the move and more countries could potentially see this as a viable option to curb black money and stem illegal financial activity. Such an action achieves larger significance for a globally connected India as it shows boldness in tackling an issue which has remained a thorn in the growth success story of this generation.

Conclusion

If the money disappears, as some hoarders would not like to be seen with their cash pile, the economy will not benefit. On the other hand if the money finds its way in the economy it could have a meaningful impact. The impact of demonitization was felt more in the social sector and the worst affected was also the poor and the common people. Salaried class is not still able to withdraw their salaries from the banks and ATMs as a result of cash deficit. It is clearly evident that India is moving towards cash less economy. This will curb the black money to a great extent but educating the masses on the mobile based money transaction is a huge challenge.

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Demonetisation and its Shock on Indian Economy

Dr. Kannakatti Jayanna², Dr. Srinivas B G³, and Dr Akram Basha S B⁴

Abstract

On 8th November 2016 night at 8.15 P M Prime Minister of India Mr. Narendra Modi in his unscheduled television address to the nation announced that the currency notes of Rs.500 and Rs.1000 denomination will not be a legal tender money from midnight. Government took this step of demonetising the currency as a tool to fight against black money and corruption in Indian Economy.

Keywords: Demonetisation and its Impact on Indian Economy

I. Introduction:

Demonetization is the act of changing the existing currency in another form. The old units should be retired and replaced by new currency. In other words demonetization means either introducing new notes or coins of the same currency or fully replacing the old currency with new currency. There is an one important thing exist on economics, which is remonetisation, in which forms of payment is restored as legal tender. There are so many reasons, why governments demonetized their nation's currency. Some reasons are like resisting inflation, resist corruption, and discourage a cash system in the country.

In November 2016, The Indian government has taken a bold step to demonetize the 500 and 1000 Rs (fully ban). Currency notes, these two biggest denominated notes accounted 80% of the currency supply. The government's main objectives of note ban is, to eradicate

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counterfeit currency, resist tax evasion, destroy the black money, and terrorist financing activities, and to encourage the country towards the cashless economy. This decision taken by government is for welfare of the nation, but so many questions comes in mind that, would note ban decision actually eradicate the black money, if does then at what extent black money will come out. What should be the impact of this decision on Indian economy? Would Indian economy be prosperous or would be poor.

II. Objectives of the study

- 1) To know about actual present outcomes of the note banned decision.
- 2) To know the potential of the note ban decision.
- 3) To estimate the consequences for future of the note ban decision.
- 4) To know the impact of note ban decision on the Indian economy.

III. Scope of the study

This study will helpful for the citizens of India, Indian government, businessman and the Indian customers. Through this study government will be able to know about the future conditions of the economy. This study will help to the government for policy making to the betterment of the economy. This study will also helpful for the Indian citizen because they would be able to know the present and future condition of the economy and they can take rational decision on their income and expenditure. Any businessman can also take the wise decision so that he will be able to generate more revenue and can earn the profit in the actual market scenario. Finally everybody would be able to know the impact of note banned decision on Indian economy as well as Indian markets.

IV. Data Collection

Secondary data has used for the study. Secondary data is collected from library, text books, and journals, articles from news papers and from relevant websites available on internet.

V. Theoretical Framework

Experts and Economists views about demonetization in India.

1. Amartya Sen (Leading economist; Noble Laureate; recipient of the Bharat Ratna) According to Indian express, Professor Amartya Sen said that millions of innocent people have deprived from their money and being suffered to get their own money back.
2. Dr. Manmohan Singh (Former Prime Minister; eminent economist; former RBI governor) According to Indian express, the former prime minister, RBI governor, and

economist Dr. Manmohan Singh said in Rajya Sabha that this demonetization is organized loot. In his speech he said that, the way the scheme has been implemented will harm the agricultural sector in India, it will also harm the small scale industry and informal sectors of the economy. He also said that India's GDP can fall about 2 percentage point as a result of this note banned policy. Cooperative banks which serve the rural areas are non-functional and have been prevented from cash. Former prime minister also said that this note banned policy is a monumental mismanagement.

3. Kaushik Basu (Leading economist; Senior Vice-President and Chief Economist at The World Bank) According to Indian Express, Mr. Kaushik Basu said that government of India made policy that any person who deposits money beyond the limit of 250,000, have to pay huge penalty. This policy created a new black market, in which large amount of illicit cash broken in to smaller parts and deposited by the members of team; which is a legal way of illegal activity. Mr. Basu said this move is hurting innocent people who have no illegal money but they have built up cash reserve over a long period of time.
4. Arun Shourie (Former economist at the World Bank; recipient of the Padma Bhushan and Union Minister) According to Indian Express, Mr. Arun Shourie said in an interview with NDTV, that this note banned policy made by present Indian government is not poke on black money, because the owner of black money converted their money into tangible and intangible assets. The persons who have huge black money, they never keep money in cash, they never keep money under the mattress, or in gunny bags. They invested their black money in properties, jewelries, stock markets or in other assets.
5. Arun Jaitley (Current Finance Minister of India; Senior Advocate, Delhi High Court) According to Indian Express Mr. Arun Jaitley gives his opinion that the demonetization is good for economy, Indian banks were facing NPA problem since last many years, now banks will have more money to lend for many sectors of the economy.
6. Arvind Virmani (Leading economist; Former India's representative at IMF; Former Chief Economic Adviser, GOI) According to Arvind Virmani demonetization is a useful technique to solve the problem of black money, but he also said that it needs deeper study to check the effectiveness of demonetization. Immediate effects of

demonetization are negative impact in retail trade in goods and services. Currency for everyday transaction has to be replacing soon.

7. Surjit Bhalla (Chairman, Oxus Investments, a Delhi-based economic research/advisory firm; Former Professor at Delhi School of Economics; Previously worked at the World Bank) According to Mr. Surjeet Bhalla BJP government take a Courageous step, and the credit goes to our prime minister Mr. Narendra Modi. If this step would be successful then it will be biggest reform in India. This policy will silently create the money for the economy.

VII. Some other aspects to know the effectiveness of demonetization:

1) Why India demonetized only 500 and 1000 currency notes

According to RBI's Report the 500 rupees and 1000 rupees notes approximately 86 % value in the circulation. So government decides to remove this huge amount of money from the market. And the maximum Fake currency notes exist in the form of 500 and 1000.

2) Impact of demonetization on Indian economy:

CHART 1 NOMINAL GDP ESTIMATE HAS GONE UP POST-DEMONETIZATION

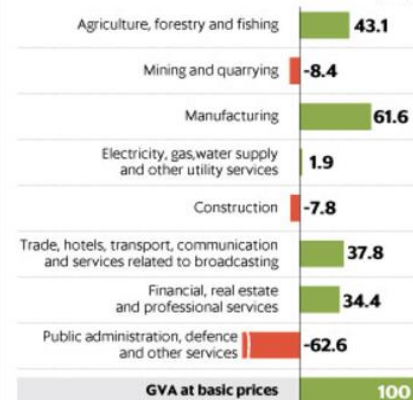
Change in inventory has been one major reason for rise in GDP estimates
 (% change between 1st and 2nd advance estimates)



Graphic: Santosh Sharma/Mint

CHART 2 MANUFACTURING, FARM SECTORS PUSH UP GVA GROWTH

Contribution to change in GVA growth between 1st and 2nd advance estimates of CSO
 (in %)



Source: Ministry of Statistics and Programme Implementation

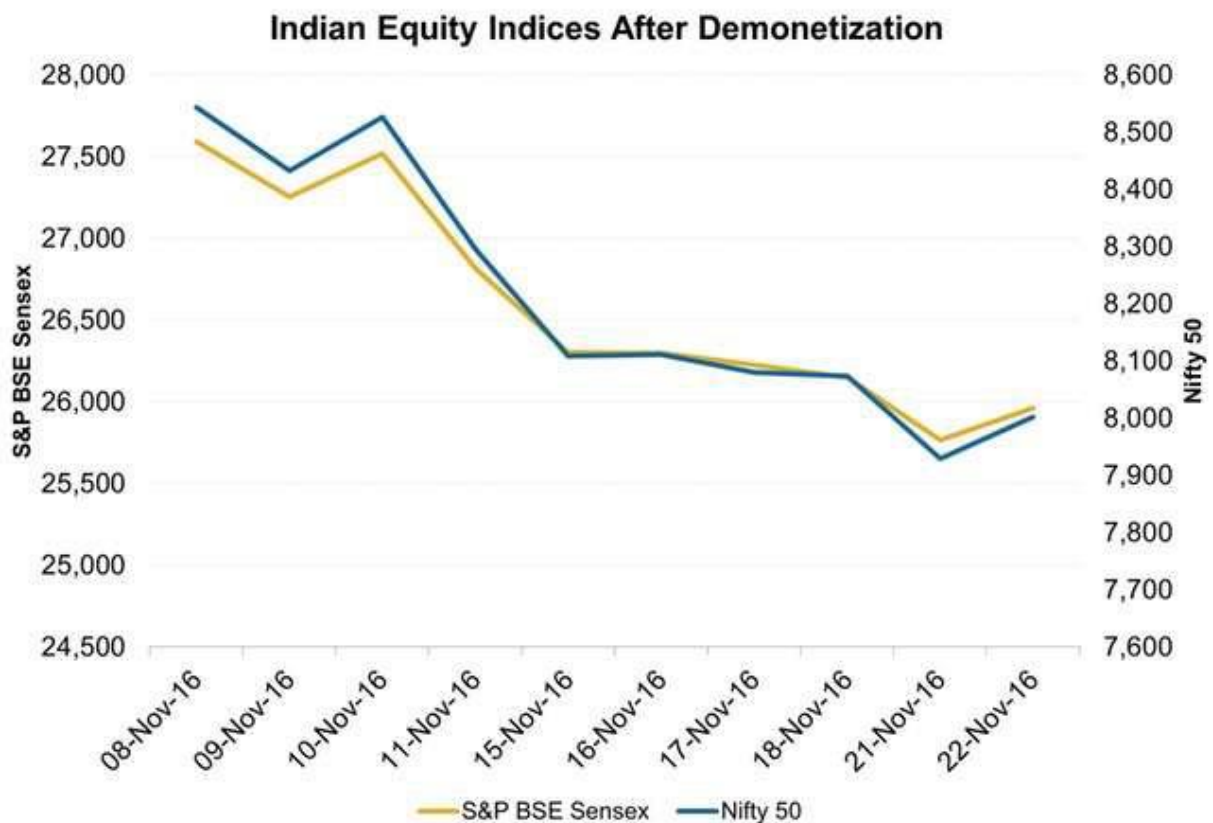
The demonetization somehow reduced consumption activity in economy of India. But it increased the money in banks. At the time of demonetization the consumption had reduced and the market become slowdown, but the increase in the deposition in the bank would be better for economy in future.

3) Impact of demonetization on loan from banks in India.

After demonetization announcement deposition in Indian bank has increased, According to reserve bank India, deposits crossed 5 trillion rupees from 10th November to 18th November. Due to this many banks like SBI, ICICI, HDFC PNB reduced their deposits.

4) Impact of demonetization on Indian financial market

After demonetization Indian financial market has been followed just like secular falling trend. Nifty 50 fell approx 6.3% and S&P BSE Sensex Fell 5.9% from 8 November to 22 November.



5) Impact of demonetization on next financial year (Hindustan times, 2 feb.2017)

According to Pranab sen (India’s First Chief Statistician) said that, the targeted economic growth rates about 7.5% presented by Indian government for upcoming financial year is over optimistic. He said that the decision about ban on currency note has adversely affected the industrial sector. It affected the IT sector which is 45% of the India’s Gross Domestic Product, and approximately 80% of India’s employment depends upon IT sector.

6) Impact of note ban on Auto Assets Backed Loan (Business standard,13 feb 2017)

According to Moddy's investor service demonetization has negatively impacted on Indian auto-assets backed loans in the short term and this will continue till the march end.

7) Impact of demonetization on Real estate (Business standard,12 feb 2017)

During November-December 2016, the monthly average housing sales fell about 40% in the top nine cities like Gurgaon, Ahmadabad, Kolkata, Chennai, Hydrabad, Bengaluru, Pune, Mumbai and Noida. Before demonetization the monthly average house sales was 19000 units in July month and 18000 units in October month. The monthly average sales were reduced drastically during November-December months by 40% and 49% respectively.

The government had announced the demonetization move on November 8, raising hopes of sharp fall in prices in property market, especially secondary or resale segment. Starting of third quarter, October month showing best performance, but November and December both negatively impacted by the demonetisation, 50% of the total sales in the third quarter contributed by October month.

The real estate developers were focusing their efforts to attract customers by offering additional free benefits like jewellery, electronic items, automobiles, holiday package and appliances on the purchase of housing units. Builders also offered the price guarantee, rental assurance, and buyback schemes to bring confidence in the sector.

8) Impact of demonetization on FMCG industry (Economic times 24 dec. 2016)

FMCC industry had gone down by 1-1.5% or Rs 3,840 crore in November, compared to October. The purchase in November had gone down by 6.4% compared to October. Purchase of personal care items such as toilet soaps, toothpaste and shampoo had seen the greatest fall by retailers. According to consumer point of view, one out of five housewives had reduced spending by 50% or more. They had cut spends across categories for impulse categories such as biscuits, salty snacks compared to everyday essentials like atta, rice, pulse, sugar.

9) Demonetization will help to fight with black money and reduce corruption. (dnaindia 13 dec.2016)

According to Adi Godrej demonetization may had considerable negative effect at the earlier stage but after some days the situation had improved and it will have a positive impact on the economy. The Chairman of the Godrej group also said that it would help to fight with black money and it will also reduce corruption. He further said there is a fair amount of cash has come into the economy and more is being coming regularly basis, and this is good sign for the economy.

10) Positive effects of demonetization may not be long term. (Indianexpress, 22 Nov.2016)

According to Fitch Rating the positive effects of demonetization of Rs 500 and 1,000 notes are unlikely to be of long term nature to support banks' credit profile. The rating agency, which rediscovered its negative outlook on the Indian banking sector. The demonetization drive has the potential to raise government revenue and encourage bank lending. The demonetization move could boost government revenue to the extent that helps to move economic activity from the informal to the formal sector. The positive impact on funding conditions will depend on deposits remaining in banks beyond the next few months, and there is nothing to prevent them being withdrawn again.

VIII. Impact of Demonetisation on Indian Economy

Government of India demonetised the currency as a tool to fight against corruption and black money, which are the major problems of Indian economy. The present demonetisation will be having some effects on Indian economy. Some of the major effects of demonetisation is as follows.

❖ **Effect on Parallel Economy**

One of the major objectives of the demonetisation is to fight against the black money. With the demonetisation the black money within the economy will be blocked as the owners of the black money in the form of 500 and 1000 rupee notes cannot replace it and deposit it in the banks as it is not having the proper documents. In this way the parallel economy will be affected to a greater extent which is the positive impact of demonetisation.

❖ **Short Run Effect on Money Supply**

Money supply will be reduced in the market due to withdrawal of currency notes from circulation. This effect will be the short run impact of demonetisation. The problem of

money supply will be solved when the new currency notes widely circulated in the market.

❖ **Effect on Consumption**

Decrease in money supply as a result of demonetisation is also having an impact on production and consumption. Due to decrease in money supply production decreases and it affect the consumption negatively.

❖ **Fall in the Prices**

❖ Prices for different goods will fall with demonetisation of currency. The prices of consumer goods and the prices of real estate sector are expected to fall.

❖ **Increase in Bank Deposits**

The demonetisation increases the deposits in current account and savings bank account. As government announced the demonetisation, the money held by the household sector for the emergency purposes will be deposited with the banks, which will increase the deposits in the banks.

❖ **Increase in Alternative Modes of Transactions**

Due to demonetisation the cash transactions are facing a reduction, which increases the other alternative modes of transactions like use of credit cards, debit cards online payments and transactions etc.

❖ **GDP will Decrease in the Short Run**

GDP will be hurt due to the demonetisation. GDP of India may fall as a result of demonetisation. The extent of fall may be very less and it exists only for a short duration of time. This fall may not affect the growth of the economy.

❖ **Effect on Anti Social Activities**

Demonetisation is a mighty blow on the anti social activities. Due to the demonetisation funding of anti-social activities, smuggling can be curbed. These anti social activities weaken the economy. It is difficult to the anti social activists to recover from this. So the anti social activities can be curbed to a greater extent.

❖ **Effect on Other Units of the Economy**

Demonetisation will have short run impact on agriculture, small traders, small vendors etc. as agriculturists are dealing with the perishable commodity, not having other mode

of payment other than cash transactions and lack of demand will affect the farmers negatively. The same kind of situations faced by the small traders and small vendors. This also a short run effect of demonetization these are some of the major impact of demonetisations on Indian economy.

IX. Conclusion

Demonetization in India is a great effort taken by Indian government to combat with black money and corruption. It is a bold decision taken by government. The main purpose of demonetization is eradicating the black money and reduces the corruption. Government of India has become success to some extent. Most of the black money has been crushed. Amount of cash liquidity increased in the bank day by day. And anybody knows if the bank has more deposits then bank become stronger. The country in which bank is strong then that county is more financially strong. In future banks will able to do more and more loans to the individual and to the industrial sectors sot that production will grow in our country, employment will generate, and our country can develop at very fast rate. But this is only future perfections; upcoming few months will show the actual economic condition of our country. Although Demonetization has create so many hurdles for the citizens of India. Citizens of India faced so many problems due to the demonetization drive; they faced queue problems in the banks and ATM'S for depositing and withdrawing money. Citizens of India faced problem of less consumption of goods due to the lack of cash liquidity. Several businesses disrupted due the lack of liquidity, business owners as well as consumer faced so many problems. When government took this bold decision about the demonetization in India, government didn't know that Indian citizen will have to face this kind of problem for a long time. But government has given so many remedies to the citizens of India for time to time.

On the other hand, Indian financial market, real estate market, FMCG Sector, Auto assets backed loans etc all are declined for a short time. Some economics expert said that positive impact of demonetization will showed in future. Government has also increased the withdrawal limits. The queues in front of banks and ATMs have reduced. Somehow black money also comes out. Now we should wait and watch the overall impact of demonetization drive.

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Does Demonetization Hurtle the Indian Economic System?

Nagaraju G⁵, Mohamed Riyaz⁶, and Bheemappa M⁷

Abstract

The Indian government's stated objective behind the 2016 demonetization policy are as follows; first, to make India corruption free, second, to curb black money, third, to control inflation, fourth, to stop terror financing, fifth, to make the people pay income tax and finally, to make a cashless society and create Digital India. The demonetization policy is seen as a financial reform in the country but this decision is fraught with its own merits and demerits. This paper has made an attempt in analyzing the impact of demonetization on various sectors and the economy as a whole.

Keywords: *Demonetization, Black Money, Economic Growth, Liquidity.*

I. Introduction

The Government of India, on 8th November, 2016 announced demonetization of all Rs.500 and Rs. 1,000 banknotes which stripped those currencies of their legal tender status. However, the lower denomination currencies Rs 10, Rs 20, Rs 50, Rs 100 and coins remained valid. This move was attempted by the government to tackle three problems in the economy viz., a parallel economy, counterfeit currency and terror financing. To touch upon the legality of this move, the Government of India and RBI are allowed to declare a particular tender illegal (under section 26(2) of the RBI Act, 1934) even if it affects the functioning of enterprises

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(reservation under the Right to Trade enshrined in the Indian Constitution). This is not the first time when Indian currency is demonetized in India. Demonetization has been implemented twice in the past on 12th January, 1946 and 16th January, 1978 to combat tax evasion and curb black money. However, this is the first time Rs 2,000 currency note is being introduced.

The first currency ban in 1946

In 1934, Rs.500 and Rs.1000 notes were introduced and after four years in 1938, Rs.10,000 notes were introduced. In 1946, the currency note of Rs.1,000 and Rs.10,000 were removed from circulation (both the notes were reintroduced in 1954 with an additional introduction of Rs.5,000 currency). The ban really did not have much impact, as the currency of such higher denomination was not accessible to the common people. By the end of 1947, out of a total issue of Rs.143.97 crores of the high denomination notes, notes of the value of Rs. 134.9 crores were exchanged. Thus, notes worth only Rs. 9.07 crores were probably 'demonetized'. There was no fool-proof administrative method by which a particular note brought by an individual could be proved as the life-savings of the hard-working man who presented it or established as the sordid gains of a black-marketer. Another loophole was the exemption of the princely states from scrutiny or questioning when such notes were presented by them. Hence, it was more of "conversion", at varying rates of profits and losses than "demonetization".

The second ban in 1978

In the early 1970s, the Wanchoo committee, a direct tax inquiry committee set up by the *Planning Commission of India*, suggested demonetization as a measure to unearth and counter the spread of black money. The then Prime Minister of India, Morarji Desai announced the currency ban in 1978 by taking Rs.1000, Rs.5000 and Rs.10,000 out of circulation, which was 1.7 per cent of total notes in circulation i.e., Rs.1.46 billion accounting for about 0.1 per cent of GDP (Hari, 2017). The sole aim of the ban was to curb black money generation in the country. However, the public nature of the recommendation sparked black money hoarders to act fast and rid themselves of high denominations before the government was able to clamp down on them.

Similarities in 1978 and 2016 ban

The note ban by Morarji Desai and Narendra Modi aimed to drive away black money out of circulation in the economy. Hence, The High Denomination Bank Notes (Demonetization) Act, 1978 was implemented.

Narendra Modi announced the currency ban in an address that was broadcasted across all news channels. Similarly, Desai announced the ban over the radio after which the banks were closed the following day. Both the affairs were kept confidential.

Differences in the currency ban

Unlike Modi, Desai didn't have the backing of the RBI Governor. The Governor I.G.Patel believed that the ban was implemented simply to immobilize the funds of the opposition party. Patel also believed that people never store black money in the form of currency for too long.

The 1978 currency ban affected only the privileged few, while the 2016 ban had shaken the whole country.

Demonetization in Other Countries

The measure of demonetization is not a new concept for the world. The French were the first to use the word Demonetize, in the years between 1850 -1855. There were other nations that tried demonetization in the past. Table 1 gives the details of demonetization efforts by the countries around the world.

Table: 1

Demonetization Efforts in Other Countries

S. No.	Country	Year of Demonetization	Reason for Demonetization
1	Nigeria	1984	To curb black money
2	Ghana	1982	To tackle tax evasion.
3	Zimbabwe	2015	To solve the problem of hyperinflation and to stabilize the economy
4	North Korea	2010	To banish the black market
5	Soviet Union	1991	To end black money
6	Australia	1996	To stop counterfeiting
7	Myanmar	1987	To curb black money

Source: Compiled by the authors

Reasons for 2016 Demonetization in India

Deodhar (2016) in his article “Black Money and Demonetisation” highlighted that the demonetization of Rs.500 and Rs.1000 by the government was targeted towards tackling black money, corruption and terrorism. With a view to curb financing of terrorism through the proceeds of Fake Indian Currency Notes (FICN) and use of such funds for subversive activities such as espionage, smuggling of arms, drugs and other contrabands into India, it was decided to cancel the legal tender character of the High Denomination bank notes.

Fake Indian Currency Notes (FICN) in circulation in high denominations was comparatively larger as compared to those in other denominations. Use of high denomination notes for storage of unaccounted wealth has been evident from cash recoveries made by law enforcement agencies from time to time. These notes are known to facilitate generation of black money. In this connection, it may be noted that while the total number of bank notes in circulation rose by 40 per cent between 2011 and 2016, the increase in number of notes of Rs.500 denomination was 76 per cent and for Rs.1,000 denomination was 109 per cent during this period.

As per the data provided by Swiss Bank in 2011, India is topping the list with almost \$1500 billion of its black money deposited with them, followed by Russia \$470 billion. The amount of black money is increasing year by year significantly (Ramdurg and Basavaraj, 2016).

The reason for 2016 demonetization in India was,

- To eliminate counterfeit currency
- To shrink the size of the parallel economy and black money in India
- To reduce corruption and
- To curtail terror financing

A parallel shadow economy corrodes and eats into the vitals of the country’s economy. It generates inflation which adversely affects the poor and the middle classes more than others. It deprives Government of its legitimate revenues which could have been otherwise used for welfare and development activities. So, in order to curb the menace of black money, various measures have been taken by the Government which includes, (i) Constitution of a Special Investigation Team (SIT) under the Chairmanship of a former Supreme Court Judge B.P. Jeevan Reddy and implementing some of its recommendations; (ii) enactment of a new law

viz., ‘The Black Money and Imposition of Tax Act, 2015’ to deal with black money stashed abroad; (iii) Introduction of ‘Benami Transactions Amendment Bill 2015’ enabling confiscation of Benami property (iv) Enhancing the sharing and exchange of information with foreign countries and proactive involvement in international efforts to combat tax evasion/black money; (v) Introducing Income Declaration Scheme, 2016; (vi) Use of information technology for mining of information; (vii) Prescribing requirement of PAN numbers on high value transactions, (viii) Taking action against hoarders through enforcement agencies; and (ix) Constitution of Multi Agency Group with members (investigation) of CBDT for speedy investigations against Indian persons having undisclosed foreign assets.

Impact of 2016 Demonetization on the Economy

Indian high value currency has been stripped of its status as a legal tender for the third time in 2016. The impact of this demonetization on the economy was high primarily because, the demonetized currency represented 86.5 per cent of the total currency in circulation. In a historic move, the Modi government decided to cancel the legal tender of Rs.500 and Rs.1000 notes in a bid to curb and eliminate black money and counterfeiting, which is also likely to impact the macro economic variables in the country.

Liquidity

Notes in circulation as of November 4, 2016 was Rs. 17,742 billion i.e., 13 per cent of GDP and the value of Rs. 500 and Rs. 1,000 notes in circulation was Rs. 15,347 billion which was about 86.5 per cent of notes in circulation i.e., 11 per cent of GDP (Hari, 2017). The demonetization move along with the imposition of withdrawal limits resulted in severe contraction in money supply and reduced the usage of these notes and thus negatively impacted the liquidity in the immediate term. In the long run, the shift over to digital payments and issuing of new currency notes will bring about cash circulation to mean levels.

Table: 2

Bank Notes in Circulation as on March 2016

(in Rs.)	Volume (million pieces)	Volume of Bank Notes in Circulation (in per cent)	Value (in billions)	Value of Bank Notes in Circulation (in per cent)
2 and 5	11,626	12.9	45	0.3
10	32,015	35.5	320	1.9
20	4,924	5.4	98	0.6
50	3,890	4.3	194	1.2

100	15,778	17.5	1578	9.6
500	15,707	17.4	7854	47.8
1000	6,326	7	6326	38.6
Total	90,266	100	16,415	100

Source: Reserve Bank of India

Table 2 shows that at the end of March 2016, the value of banknotes in circulation was Rs.16,415 billion. In value terms, Rs.500 and Rs.1,000 banknotes together accounted for 86.5 per cent of the total value of banknotes in circulation; by volume, Rs.10 and Rs.100 banknotes constituted 53 per cent of the total banknotes in circulation.

GDP

IMF projected that India's growth will slow down to 6.6 per cent in 2016-17 fiscal due to the strains that have emerged in the economy as a result of "temporary disruptions" caused by demonetization. As per IMF, demonetization would have only short term impact on the economy and it would bounce back to its expected growth of more than 8 per cent in the next few years. Post demonetization, cash shortages and payment disruptions caused by the currency exchange initiative have undermined consumption and business activity, posing a new challenge to sustaining the growth momentum.

Inflation

Declaring the existing stock of Rs.500 and Rs.1,000 notes as illegal tender addressed multiple issues with one stroke. Most importantly, it has straight away wiped out most of the illegal cash accumulated over a number of years from the system. This will have a direct impact on inflation as there will not have too much money chasing too few goods and excess money supply will no longer fuel price rise and counterfeit currency circulating in the country has ceased to be of any value. Hence, there will be downward pressure on prices due to lower demand especially in rural areas where share of cash transaction is high (Hari, 2017). However, if supply too gets curtailed for want of a medium of exchange, prices might, in fact, rise. Thus, while generally people seem to expect prices to fall, it is quite possible that prices would instead rise (Rao et.al., 2016).

Credit Creation

The demonetization move would bring back a lot of money outside the system back into the financial system which can be used by banks for financing the commercial activities. This would not only improve the profitability of banks, but would also pave way for reduction

of interest rates and partly address the problem of NPAs. Thus, demonetization has brought a large part of money into the formal banking system which has increased the ability of the banks to lend.

Taxation

According to the Finance Minister Arun Jaitley, both indirect taxes and direct taxes levied by the Union government registered good growth in the month of December 2016 suggesting that the impact of demonetization on economic activity was limited. There has been a 26.2 percent increase in central indirect tax collection till November 30, 2016. Excise duty was up by 43.5 percent, service tax by 25.7 percent and custom duties up by 5.6 percent. Till 19th December, 2016 direct tax collection increased to the extent of 14.4 per cent.

Impact of 2016 Demonetization on Various Sectors in India

In terms of the sectors in the economy, the sectors to be adversely affected are all those sectors where demand is usually backed by cash (Rao et.al., 2016). Demonetization will scratch the surface of many industries, which have been conduits of black money. The impact of demonetization on various sectors of Indian economy is as follows:

Real Estate

It is still too early to accurately gauge the depth of the shakeup caused by demonetization, but its impact on the real estate sector is apparent. Since the announcement of demonetization, the ripples have been spreading through the already disturbed sector, which has been experiencing excruciatingly slow growth in recent times. The real estate sector will definitely be affected by the demonetization exercise, as it has traditionally seen a very high involvement of black money and cash transactions. But, over the long term, the Indian real estate sector will emerge stronger, healthier and capable of sustained growth.

Agro and related sectors

The sector typically sees high cash transactions and therefore near-term impact could be seen till liquidity is infused in the rural areas. As farmers face a temporary shortage of cash in hand, it could lead to a delay in payment which in turn would hurt the related companies in the short term.

Manufacturing Sector

Demonetization of high-value currency notes in November hit the manufacturing sector as indicated by a private sector survey. The Nikkei India Manufacturing Purchasing Managers'

Index (PMI) fell to 49.6 in December, the first time it hit below the 50-mark in 2016, from 52.3 in November. A reading below 50 implies contraction while one above 50 indicates expansion. Companies saw new work and output dip for the first time in 2016. In turn, quantities of purchases were scaled back and employment lowered.

Services Sector

Hit hard by demonetization, the services sector slipped into contraction in November 2016, worst slump in nearly three years, as new orders dried up and customers cut spending due to cash shortages. The Nikkei India Services Purchasing Managers' Index (PMI), which tracks services sector companies on a monthly basis, stood at 46.7 in November, down from 54.5 in October. Due to cash crunch in the economy, businesses declined in hotels, restaurants and renting activities. The gloomy PMI figures for the Indian service sector shows that companies were heavily impacted by the ban on Rs.500 and Rs. 1,000 notes. The drop in services activity suggests larger dependence on cash transactions.

Automobiles

Clampdown on cash transactions and temporary cash crunch hurt purchases of two wheelers, where the percentage of cash transactions has been high. In case of passenger vehicles, the seasonal slowdown seen during November and December months could get more pronounced as consumers delay purchases due to temporary liquidity crunch and expectations of rate cuts. However, as most passenger vehicles are financed through loans, the blip would be temporary. Thus, slackness in the economy on account of demonetization could have a negative impact on the commercial vehicle volumes.

Consumer Durables

Approximately 70-75 per cent of transactions in this sector are cash transactions and hence the immediate demand for products in this sector will fall. However, adjustments in the form of new currency usage and digital payment systems will place this sector in a neutral position.

Financial Sector

The biggest beneficiary from the demonetization policy will be the banking sector because of the increase in the CASA (Current Account and Savings Account) deposits which

will result in substantial liquidity with the banks which in turn increases the Net Interest Income and the Net earnings of the banks. However, this will not be abnormally high since the RBI has increased the CRR in the short term to mop up some of this liquidity.

Conclusion

The demonetization move has created chaos in every strata of the society whether upper, middle or lower. This is because, India is cash based economy and demonetization temporarily decreased the liquidity position. Decreased liquidity leads to less demand which in turn results in low productivity causing a slowdown in consumer market. Without adequate and proper planning, the demonetization-driven cash crunch has rendered Indian economy paralyzed at least for short duration. It has affected the informal sector where cashless transactions are minimal. Informal sector includes 106 activities like agriculture, workers in construction, local transport, community services and small workshops like shoe makes and garment makers, rural populations and the urban poor and middle class (Sinha and Rai, 2016). The government claims that demonetization would curtail the shadow economy. However, according to the data from income tax probes, black money holders kept only 6 per cent or less of their wealth as cash, suggesting that targeting this cash would not be a successful strategy. In 2012, the Central Board of Direct Taxes recommended against demonetization saying that “demonetization may not be a solution for tackling black money which is largely held in the form of benami properties, bullion and jewellery”. Few economists and policy makers are of the opinion that this demonetization move by the government will hamper the economic growth for three to four quarters of the financial year; but would be beneficial for the economy in the long run. Unless the prime objective of demonetization viz., curbing black money and counterfeit notes is achieved, the long run benefits would remain a distant dream. The success of demonetization depends upon the efficiency of the government and administrative machinery in mitigating corruption. Since there is no precedent to such massive demonetization move in India, we can only speculate future macroeconomic effects of demonetization.

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Demonetisation: Costs and benefits to RBI

Sarala M S⁸

Introduction

Demonetisation a tool to battle inflation, black money, corruption, crime, discourage a cash dependent economy and help trade. A bold step taken by our Prime Minister during the previous year. Indeed a bold step as many countries that have tried demonetisation for various reasons have not been successful. In many cases rather than the serving purpose for which it was undertaken had collapsed the economies. The success of demonetisation depends upon the planning of the government, fiscal policies and how the RBI or the Central Bank executes it. A huge responsibility on the RBI and an important role to play. It has been almost a year since demonetisation has been implemented in India, so, it's time to analyse the costs and benefits of demonetisation to RBI, the central bank of India.

Review of Literature

Nithin and Sharmila (2016) studied demonetization and its impact on Indian Economy. They opined that demonetization has short term negative impact on different sectors of the economy and such impacts are solved when the new currency notes are widely circulated in

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the economy. They also argued that the government should clear all the problems created due to demonetization and help the economy to work smoothly.

Nikita Gajjar (2016) deliberated a study on Black Money in India: Present Status and Future Challenges and Demonetization. She described the framework, policy options and strategies that Indian Government should adapt to tackle with this issue and the future challenges to be faced by the Government.

Vijay and Shiva (2016) examined demonetization and its complete financial inclusion. They felt that the rewards of demonetization are much encouraging and the demonetization is in the long-term interest of the country. They expressed that it had given temporary pain but it taught financial lessons. It influenced banking industries to do considerably investment on digitalization of banking services.

Manpreet Kaur (2017) conducted a study on demonetization and impact on Cashless Payment System. He said that the cashless system in the economy has many fruitful benefits less time-consuming, less cost, paper less transaction etc. and he expected that the future transaction system in all the sectors is cashless transaction system.

Lokesh Uke (2017) researched on demonetization and its effects in India. He studied positive and negative impact of demonization in India. The study was based on secondary data available in newspaper, magazines etc. The main purpose of demonetization is to eradicate the black money and diminish the corruption. He expressed “Demonetization and its effect on Banking Sector” that Government of India has become success to some extent. Demonetization had negative impact for a short duration on Indian financial markets. But he said that the real impact will be shown in future.

Sweta Singhal (2017) carried out research on Demonetization and E Banking in India. It was a case study to check the awareness level of people of rural areas in India about e-banking facilities and how much it has increased after demonetization. A sample size of 100 was used with ANNOVA test to show that rural people differ much with urban people in their awareness level as well as usage level of e-banking. It was found that urban male youth have

higher awareness and usage of e-banking. She felt that the study shall also helpful for banks to improve their e-banking facilities.

Dr. M. Prabhu, Girish V, Mamatha in their paper, ‘Demonetisation and its effect on Banking sector’ have opined that demonetisation has made vibrations in the operations as well as products and services of Banks. It created greater demand to digital banking services where cashless transactions are prioritized. Day to day operations of Banks are affected and found tough in Management of liquidity and Employees. It made greater influence on Management of liquidity and its demand raised by customers in exchanging of their banned currency notes while minimizing risk and maximizing quality of service. At the same time meeting the guidance of Reserve Bank of India was challenging.

Objectives of the study

The main objectives of this paper are,

- To study the costs of demonetization by the government of India to RBI.
- To study the benefits of demonetisation to RBI.

Methodology of the Study

The study is based on Secondary Sources of data. It includes available published literatures such as books, journals, newspapers and relevant government websites. The study tries to look at the extent of demonetization influence on normal banking operations.

The costs and benefits of demonetisation

The Reserve Bank of India (RBI) is transferring Rs30,659 crore of its surplus to the government for financial year 2016-17 (July-June), less than half of the Rs65,876 crore it had transferred in the previous year, and substantially lower than what the government had estimated in its budget document (Rs58,000 crore). At least four factors have contributed to the decline in the Indian central bank’s surplus for the year and behind two of them, demonetisation has played a critical role.

While the jury is still out on the long-term benefits versus short-term pains inflicted by demonetisation, the sharp drop in the central bank's dividend pay-out to the government is a direct fallout of the exercise. It will have an impact on the government's fiscal deficit—the target for which during 2017-18 is pegged at 3.2% of India's gross domestic product (GDP).

In the 50 days between 10 November and 30 December 2016, Rs15.4 trillion worth of currency notes of denominations of Rs1,000 and Rs500—some 86.9% of the value of total notes in circulation—were withdrawn to attack black money hoarders, fake currency and terror funding in the country. There has been speculation that the Indian government could use the currency that would not be returned to solve its fiscal problems. The argument has been that if a portion of the currency withdrawn or demonetised would not return to the banking system, to that extent, the RBI's liabilities would go down and the central bank could transfer an equivalent amount of assets to the government as a special dividend.

At the initial stage, the quantum of unreturned currency was speculated to be around Rs3 trillion. While no official figures are available as yet of how much money has returned to the system, ironically, instead of helping the government tackle its fiscal deficit, the impact of demonetisation on RBI's balance sheet will queer the pitch this year. This is the lowest dividend paid since 2011-12, when RBI had transferred Rs16, 010 crore to the government. It had paid Rs33, 010 crore in 2012-13, Rs52, 679 crore in 2013-14 and Rs65, 896 crore in 2014-15.

The four contributing factors to the depletion of RBI's income and rise in expenditure are:

1. The firming up yields on foreign securities

RBI does not give any details of its foreign assets. It keeps deposits with other central banks, foreign branches of Indian banks, the Bank for International Settlements, special drawing rights acquired from the Government of India, and foreign treasury bills and dated securities. It is presumed that the bulk of its foreign investments are in US papers. The 10-year US paper yield rose from 1.44% in July 2016 to 2.3% in June 2017; similarly, the one-year US Treasury Bill yield rose from 0.44% to 1.23% and that of 3-month US T Bill yield rose from

0.2857% to 1.01% during this period. The prices and yield of treasury bills and securities move in opposite directions. This means that when the yields rise, prices go down. So, RBI's foreign investment portfolio is hit as it needs to be marked to market (MTM), an accounting practice whereby an asset is valued at the current market price and not the price at which it was bought. Going by the RBI annual report, foreign securities, other than treasury bills, commercial papers and certain "held to maturity" securities are marked to market on the last business day of the month. Treasury bills and commercial papers are carried at cost, adjusted by amortization of discount, daily.

2. Appreciation of the local currency

The appreciation of the local currency has also contributed to the erosion of value in RBI's foreign assets. In fact, it's a double whammy for the central bank. Since its balance sheet is in rupees, its foreign currency assets have first taken the MTM impact and, at the second stage, lost value while converted into rupee. A dollar fetched Rs67.32 in July 2016; but in June 2017, it fetched less—Rs64.58. This means, there has been a 4.25% value erosion while converting its foreign currency assets into Indian rupees. Since June, the rupee has appreciated further. This piece of data illustrates the impact best: RBI's foreign exchange reserve of \$363 billion was equivalent of Rs24.3 trillion in July 2016; in August 2017, it rose to \$393.5 billion but in rupee terms, the rise is marginal—Rs25 trillion.

3. Cost of printing of new currency notes

The printing of new currency notes of Rs500 and Rs2, 000 to replace old notes of Rs500 and Rs1, 000, distributing them (Indian Air Force helicopters were used to send new currency notes to banks and automated teller machines in Jharkhand, Bihar and parts of North-East), hiring shredding and briquetting machines on lease to scrap old notes and currency verification machines to weed out fake notes have been a costly affair. India imports most of the paper used for printing currency notes, primarily from Italy and Switzerland. Of course, the cost has been shared by RBI and the government as the notes are printed at four presses—two each run by the government-owned Security Printing and Minting Corp. of India Ltd (at Dewas in Madhya

Pradesh, and Nashik in Maharashtra), and Bharatiya Reserve Bank Note Mudran Pvt. Ltd, an RBI unit (at Mysuru in Karnataka, and Salboni in West Bengal).

There is no clarity on the exact cost of printing the currency notes. Answering a question in Rajya Sabha, the upper House of Parliament, a minister has said the cost for printing one new Rs500 note is between Rs2.87 and Rs3.09 and that of one Rs2,000 note is between Rs3.54 and Rs3.77. According to former RBI deputy governor R. Gandhi, who was overseeing the entire currency operations of the central bank till he retired in April, the number of notes that were withdrawn could be 23-24 billion of Rs500 and six billion of Rs1,000. We don't know exactly how many notes of Rs500 and Rs2,000 have been printed to replace the old lot. Nonetheless, this is a direct impact of demonetisation.

4. Cost incurred to stamp out excess liquidity from the system

The last contributing factor to the depletion of RBI's dividend is the cost that it had incurred to stamp out excess liquidity from the system, an offshoot of demonetisation. Money in the banking system, or liquidity, had been tight in April-May 2016, eased in June-July, but in November-December, there was a deluge of money as people rushed to bank branches to deposit old notes. Initially, RBI imposed an incremental cash reserve ratio, or CRR, on banks to soak up all deposits collected between 16 September and 11 November; but it had to use other instruments later—such as reverse repo window and selling securities under the so-called market stabilization scheme, or MSS—to drain liquidity. There is no cost for CRR as banks are not paid any interest on the money kept with RBI and the cost of MSS is being borne by the government but RBI pays for the money banks keep with it through the reverse repo window. Banks were paid 5.75% and 6% for their surplus kept with RBI for various tenures between overnight and 90 days.

If banks want money from RBI, the central bank gives overnight money at the repo rate against government securities as a collateral. The amount a commercial bank can borrow from the central bank is capped at a quarter percentage point of its net demand and time liability, or

NDTL, a loose proxy for deposits. For term repo—when a bank takes money from RBI for seven days and 14 days—the amount is capped at 0.75% of a bank’s NDTL. If banks have excess liquidity (which they continue to have), they park the money at RBI’s reverse repo window. Apart from overnight money, where the rate is fixed, banks can offer money for seven days and more. Unlike the repo, there is no cap on the amount of money that can be parked at the reverse repo window. This means banks can lend as much as they want to but the central bank must have securities to offer as a collateral to absorb the money. The average daily absorption of money through the reverse repo window (net of infusion as some banks need to borrow money from RBI to take care of their temporary asset-liability mismatches) was Rs1.6 trillion in December, Rs2.2 trillion in January, around Rs3.5 trillion in February, Rs4.5 trillion in March, Rs3.8 trillion in April, Rs3.4 trillion in May and Rs3.1 trillion in June. The MSS, too, soaked up Rs3.8 trillion in December, Rs5 trillion in January and Rs2.9 trillion in February, but this cost is borne by the government.

So, lower dividend is the cost of demonetisation which the government will have to bear. While many have been talking about job losses and how it has affected the small and medium enterprises and economic growth, this is possibly the first quantifiable impact of demonetisation.

The benefits of demonetisation to RBI

Are there any benefits of demonetisation? Do they outweigh the costs? At this juncture we don’t have a definite answer, but there are several visible benefits in the short-term we are seeing; we would need to wait to get the full picture.

- Direct tax collections rose 19% in April-July of FY18 as more individuals have come into the tax net. In absolute terms, direct taxes, made up of personal and corporate taxes, have been Rs1.9 trillion, and the number of individual tax returns filed jumped 25.3%.
- Tonnes of black money may not have been unearthed but the government has been closely following the leads given by the banks and chasing people whose official income does not justify the amount of money they had deposited in November-December 2016 to get rid of the old Rs500 and Rs1,000 currency notes.

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- Indeed, the digitalization of money transactions has gone up substantially in the past few months, following demonetisation. It will not be possible to have a cashless economy, as envisaged by the government, in the foreseeable future but, certainly, we are slowly moving into a less-cash regime. As the digital transactions rise, tax compliance is bound to rise with every transaction leaving behind an audit trail.
 - Finally, demonetisation has improved transmission in the banking system and led to the greater financialization of savings.

A recent RBI research paper says between 28 October 2016 and 6 January 2017, notes in circulation declined by about Rs8.8 trillion, and this is reflected in a 4 percentage point's increase in the share of low-cost current account and saving account deposits, or CASA. It also led to a 48% increase in deposits in Pradhan Mantri Jan-Dhan Yojana accounts, with the addition of 18 million accounts post-demonetisation. The banking system's aggregate deposits grew by 14.5% year-on-year between 11 November and 30 December 2016 against 10.3% during the corresponding period of 2015. Most banks witnessed withdrawal of money by depositors subsequently, but despite that, till March-end, the excess deposit growth is around 3.5 percentage points, or around Rs3.5 trillion. The rise in CASA has brought down the cost of money for banks and they have brought down their loan rates (some banks, even the savings account rate) – something which successive RBI rate cuts could not do.

Another RBI paper says that the drop in interest rates on bank deposits after demonetisation and the decline in gold prices, coupled with a dull real estate market—regulations such as the Real Estate (Regulation and Development) Act, 2016 and the Benami Transactions (Prohibition) Amendment Act, 2016 have contributed to that—have been drawing savers and investors to the equity market, directly and through the mutual fund route.

The assets under management by mutual funds rose to Rs20 trillion in July, with the flow of money into equity schemes doubling. The premia collected by life insurance companies also more than doubled in November 2016. About 85% of the total collection of Life Insurance Corp. of India—which saw its premia collection rise 142% in November 2016—were under the 'single premium' policies, paid in lump sum. If the shift from physical to financial savings

lasts for good, then the cost of capital will come down and the much-criticized demonetisation will be a boon for the Indian economy.

Conclusion

We can conclude that demonetisation has both costs and benefits. Demonetisation alone cannot fight parallel economy and eliminate black money. Several other supportive measures are required by the government to change the economy for good. Moreover, it is critical to emphasise that demonetisation was a unique event, and hence, drawing inferences based on theory, armchair analysis or even short-term data, could lead to misleading conclusions. Serious research needs to be done extremely carefully and reasonably long-term data must be considered before reaching any conclusion about unprecedented policy events such as demonetisation. This becomes even more important when there are other related moving parts such as goods and services tax (GST), clean-up of the banking system, real estate sector reform and others going on at the same time. So, at the moment, it is better to wait a bit longer till complete analysis of demonetisation's effects is done to reach correct conclusion.

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Demonetization and Black Money in India

Sateesha P⁹

Abstract

As India decided to fight against shadow economy, The Government of India took a bold step on November 8, 2016 that the Rs 500 and Rs. 1000 denominated currency notes will cease to be legal tender. The move was targeted towards tackling black money, corruption and terrorism. After initial euphoria, questions began to emerge. Will it be effective if people can still create new black money thereafter? Or will it curb the black money? Will it increase the GDP? What about tax revenues? We look for answers. This move will help the Government to track unaccounted black money or cash on which income tax has not been paid. Banning high-value currency will halt illegal activity as cash provided for such activities has no value now. Black money is used to fund the illegal activity, terrorism, and money laundering, Fake currency circulation will come to a halt in a single shot. Most of the businessmen who have

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been hiding some income are ready to pay advance tax as current year's income and it reduces the tax evasion and it leads to increase in the GDP.

Introduction:

Dr. B.R. Ambedkar was amongst the first political leader and unsung economist of the country in 1923 in his book titled "The Problem of Rupee" had recommended that the Indian currency should be changed every ten years to tackle the problem of hoarding, the black money and inflation. While acknowledging that The Government of India took a bold step on November 8, 2016 that the Rs. 500 and Rs. 1000 denominated currency notes will cease to be legal tender. Curtailment of black money has been one of the major thrust areas of the Government especially in the recent years. In a common parlance, black money refers to the money which is generated through illegitimate means or by bypassing taxation system. Generation of black money in social, economic and political space has a debilitating effect on the conduct of public policy and the institutions of governance in the country. Black money together with counterfeit currency is also associated with crime and terrorism. While there is no official estimate of quantum of black money in India or abroad, a 2010 World Bank Report on shadow economies estimated it at 31 per cent of GDP of 162 countries in 2007 with India's estimate pegged at 20.7 per cent of GDP comparing favorably with the world average. There have been other estimates which have placed size of India's parallel economy at higher levels including a recent FICCI report which has estimated it to as high as 75 per cent of GDP. As per RBI Handbook on Statistics of Indian Economy 2015-16, a total of Rs.16.42 lakh core worth of currency was in circulation as at end-March 2016. Of this, Rs.14.18 lakh core was in form of Rs.500 and Rs.1000 denomination notes, representing around 86 per cent of the value of total currency and coins in circulation. In terms of number of notes in circulation, Rs.500 and Rs.1000 denomination notes represent about 2200 core notes, which were about 26 per cent of total notes in circulation. Therefore, it can be seen that the step would cause immobility of a major chunk of currency in the system which is expected to result in short term inconvenience for the public.

In order to curb the menace of black money, various measures have been taken by the Government both at policy level and enforcement on the ground. Some of important initiatives taken recently include (i) Constitution of a Special Investigation Team (SIT) under the

Chairmanship a former Supreme Court Judge and implementing some of its recommendations; (ii) enactment of a new law viz. 'The Black Money and Imposition of Tax Act, 2015' to deal with black money stashed abroad; (iii) Introduction of 'Benami Transactions Amendment Bill 2015' enabling confiscation of Benami property (iv) Enhancing the sharing and exchange of information with foreign countries and proactive involvement in international efforts to combat tax evasion/ black money; (vi) Introducing Income Declaration Scheme, 2016; (vii) Prescribing requirement of PAN numbers on high value transactions, and (viii) constitution of Multi Agency Group under Member (Investigation), CBDT for speedy investigations against Indian persons having undisclosed foreign assets.

Implications of Demonetization: The recent step of declaring the existing stock of Rs.1000 and Rs.500 notes as illegal tender has addressed multiple issues with one stroke. Most importantly, it has straight away wiped out most of the illegal cash accumulated over a number of years from the system. This will have a direct impact on inflation as we will not have too much money chasing too few goods and excess money supply will no longer fuel price rise. Secondly, counterfeit currency circulating in the country has ceased to be of any value. Thirdly, it would curb the menace of corruption and terrorism as the existing black money was in a large way responsible for promoting the same. Fourthly, it would bring back a lot of money into the financial system which can be used by the banks for onward lending for commercial activities. This would not only improve the profitability of banks, but would also pave way for reduction of interest rates and partly address the problem of NPAs. Fifthly, in due course of time, it would significantly help in improving tax collections as public would prefer to deal in white transactions by paying legitimate taxes. Sixthly, in respect of currency which is not deposited back in the, a space would be created wherein outstanding liability of RBI can be extinguished paving way for additional resources for the Government for being used for public purpose in phases without impacting inflation. Seventhly, with clean-up of black money, asset prices especially real estate would further decline thus making housing more affordable for public at large. Last, but not the least, it would significantly improve India's image in the global arena as the country which respects the rule of law and where businesses can flourish through legitimate means paving way for large scale investments both from within the country and abroad. With all these implications, it can be inferred that this is perhaps the biggest surgical strike on black money since Independence.

While this move will help in cleansing the existing stock of black money, there is a need to ensure that black money does not resurface in another form in due course of time. For this purpose, stringent measures and monitoring would be required. This would include regulating the issuance of new large denomination notes especially of Rs.2000. Simultaneously, a set of policies will have to be put in place so that there is little incentive for black money. This may include encouraging electronic based transactions instead of cash based, discouraging high value cash transactions, keeping tax levels moderate and administration simple and transparent, closer monitoring of real estate and bullion transactions, combating corruption, ensuring greater transparency in public procurement, providing Government benefits in a seamless manner through Direct Benefit Transfer with beneficiary database seeded with Aadhar numbers and so on. Meanwhile The change of currency notes and resultant cash crunch in the system has led to a new opportunity for the country i.e. to move towards a cashless or less cash society in the medium to long run. While India has come a long way from introduction of electronic funds transfer, the newer forms of payment have been developed in the recent years which hold significant potential to move towards a less cash economy. These include (i) Unified Payments Interface (UPI) which enables a person to transfer funds to any other person registered on UPI through mobile phone connected to internet, (ii) Digital wallets, such as SBI Buddy wherein money can be loaded to your mobile wallets and transferred to any other person using mobile numbers or bank details, (iii) Pre-paid, Debit or Credit Cards which can be used at ATMs, Point of Sales Machines by swiping the cards, and (iv) Aadhaar Enabled Payment Systems (AEPS) wherein funds can be transferred using Aadhaar numbers seeding with bank accounts. wherein funds can be transferred from mobile phones without requiring access to internet connection by dialing *99#. There is a need to spread widespread knowledge and allay the fears amongst the public to use these facilities. Government of India has already initiated a major drive for sensitizing public to make maximum use of these avenues. India already has in place one of the finest payment infrastructure in the world. Simultaneously, issues like connectivity, security and ease of transactions, data protection and user charges are also being addressed. In the long run, this would provide a significant boost to the economy as more and more informal methods of business transactions migrate to the formal sector paving way for greater transparency, financial inclusion and better tax compliance.

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Demonetization Mechanism and Complete Financial Inclusion

Kadajji Shivappa¹⁰

Abstract

The world is watching India with high expectations as India is poised to become economic leader of the region. It is an imperative that India becomes shock proof to the financial crisis and other threats. In this backdrop India has taken seriously the cause of financial inclusion years ago. However, the results were not encouraging. However, the current times are more pressing. This need of the hour has to be dealt with a serious action towards financial inclusion. To become the strong economy, India needs to eradicate black money, corruption and financial crimes. In this technological era and with largest youth population, this is the best time to strike the chord of second financial reforms. The hurdles are lack of financial inclusion and financial illiteracy. It is very ironical that, though we have largest tech savvy youth population and growing literacy, many are still financially excluded. This paper will take up the issues related to demonetization and its linkage to complete

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financial inclusion. The paper also discusses the economic imperatives of demonetization old high denomination currency notes in India and its aftermath.

Keywords: Complete Financial Inclusion, Demonetization, Economy, India

I. Introduction

Financial inclusion is an essential prerequisite for the uniform economic development and for achieving greater economic and social equity but the presence of unaccounted money and parallel economy, making it impossible. It is necessary to bring the entire money within the framework of the law. Due to ignorance, lack of financial literacy and economic surveillance, India could not achieve 100% financial inclusion as planned in the past. This is a deterrent for the economic hegemony in the region. Government is relentlessly pursuing the matter of black money. There was a need for radical and strict action for complete inclusion. November 8, 2016 demonetization announcement is to be seen in this perspective. The year will be etched in the annals of the Indian history like year 1991 for its long standing impact owing to demonetization.

It effects on the purchasing power of the money. In India, mostly black money is available in the form of gold or real estate. The volume of cash influx is straight off sympathizing with the level of corruption and currency is customarily taken out of movement. India's black economy currently could be up to 75 percent of the GDP. India has slipped to No. 75 at the annual update on Swiss banks released by the Swiss National Bank (the nation's Central Bank) in July 2016. It has been an election issue in several elections, including the general election in 2014. Further, this ranking is the lowest among the BRICS grouping of nations, of which India is a part. Further, a large part of the Indian economy is unorganized and involves heavy use of cash transactions, which do not leave audit trails. The Indian economy is likely to expand in the range of 5.4 to 5.9 percent in FY15, with better expected performance in mining and manufacturing, improved balance of payments, pick up in investment, improved external demand, stabilizing global commodity prices and a modest global growth revival. The causes of corruption in India include excessive regulations, complicated tax and licensing systems, numerous government departments each with opaque bureaucracy and discretionary powers, monopoly of government controlled institutions on certain goods and services

delivery, and the lack of transparent laws and processes. The World Bank in July, 2010 estimated the size of the shadow economy for India at 20.7% of the GDP in 1999 and rising to 23.2% in 2007. A parallel shadow economy generates inflation which adversely affects the poor and the middle classes more than others. It impoverishes Government of its legalise revenues which could have been otherwise used for social welfare and development activities. To put things in perspective, these two denominations account for a whopping 86% of all banknotes in circulation, as per the RBI's Annual Report for the financial year 2015-'16.

The honorable P.M. Narendra Modi dropped a bombshell on the black money and it is a financial-inclusion strategy and transmutation decision which, gain momentum India's progress into a less cash economy which is called demonetization. The prime motto of implementing this system is to get rid with the using black money for unfair activities in the society. Before this step the government asked the people to deposit their black money with RBI and they can distribute it with 60% & 40% in which 60% for the depositor and 40% for the government. And the act will keep confidential. Now, this percentage is reduced to 50-50%. India has seen a number of subversive changes in its history and present, and will continue to come across many more in future too. It first happened in 1946 when the RBI demonetized the then circulated of Rs.1000 and Rs. 10,000 notes. Higher denomination bank notes in Rs.1000, 5000, 10,000 were introduced in 1954, again demonetized by Moraji Desai government in 1978. The main difference then & now is that currencies of high denomination were very rare in circulation, unlike the Rs.500 & Rs. 1,000 notes today. So far, many nations have witnessed demonetization of their currency, with India being able to experience it for the third time. It will improve the tax-to-GDP ratio of the country.

II. Need for Financial Inclusion

In India financial services are used only by a section of the population due to illiteracy and other reasons. The excluded regions are rural, poor regions and also those living in harsh climatic conditions where it is difficult to provide these financial services. Hence, financial exclusion leads to non-accessibility, non-affordability and non-availability of financial products. Limited access to funds in an underdeveloped financial system restricts the availability of their own funds to individuals and also leads to high cost credit from informal sources such as moneylenders. Due to lack of access to a bank account and remittance facilities, the individual pays higher charges for basic financial transactions. Absence of bank account

also leads to security threat and loss of interest by holding cash. All these impose real costs on individuals. Prolonged and persistent deprivation of banking services to a large segment of the population leads to a decline in investment and has the potential to fuel social tensions causing social exclusion. Thus, financial inclusion is essential for accelerated economic growth of the country.

III. State of Financial Inclusion

Compared to the developed world, the coverage of India's financial services is abysmally low. According to the information available with the Reserve Bank of India, about 5.89 crores no-frill accounts, with and without value-added features, have been opened until November 23, 2016 of which about two-third are with the public sector and one-third with the private sector banks. Though the RBI promoted no-frills savings bank account under Jan Dhan Yojana, had all the potential to revolutionize India's rural agricultural economy, as well as usher in the banking habit amongst a large number of the less privileged population.

However, considering to the vast multitude of the Indian population the number of accounts opened is not encouraging for the cause of complete financial inclusion. After current demonetization drive the financial inclusion is being carried out in various ways as people are seeking respite from the currency shortage. People are being forced to use electronic banking services and digital platforms. Banks have been pushing the cause of complete financial inclusion.

IV. Facts of Demonetization

November 8, 2016 demonetization announcement involved the task of replacing more than 22 billion pieces of Rs.500 and Rs.1000 notes for 1.3 billion citizens through 1.3 lakh branch outlets was a Herculean task. Historically, nowhere in the world has a similar exercise been undertaken at this massive scale. It is a reaping time for the banks that made considerable investments on digitization of banking services. The alternate platforms – cards, internet banking, mobile banking, PoS terminals - have further gained momentum post demonetization announcement. An average daily debit card transaction has almost doubled and demand for PoS machine installations has increased 2-3 times. Due to the prevailing economic scenario India witnessed a surge in digital transactions and mobile transactions. This development is to be seen instrumental in achieving complete financial inclusion.

V. Rationale of Demonetization

India is swiftly increasing in terms of growth and standing in No.1 position in terms of growth but ranked 76 in Global Corruption Perception Ranking. It is no secret that the evil of corruption and black money also have grown beyond the control of the system. In fact they are influencing the system and weakening the efforts in financial inclusion. Also, existence of huge number of high value currency notes has created conducive environment for hoarding black money, corruption in business and politics and funding of terrorism by hostile countries. Therefore demonetization was on the anvil as one of the major steps to make economy free of these evils. The primary steps were already taken during the last two years viz., Aadhar seeding to gas and other services making PAN compulsory for high value transactions, Prime Minister's Jan Dhan Yojana of no frills accounts and recent Income Disclosure Scheme. These policies have been adopted under the recommendation and pressure of the experts and the need to eradicate economic evils. These efforts directly or indirectly will culminate into complete financial inclusion.

VI. Effects of Demonetization

The alternate platforms – cards, internet banking, mobile banking, PoS terminals have further gained momentum post the demonetization announcement. However, there is heavy disruption to the business due to which growth expectations have reduced. International rating agency Fitch has lowered India's GDP growth to 6.9% for the financial year 2017. The following are the other effects:

- It may cause deflation in the market as people who have earned money through illegal ways would be afraid to declare the money in fear of prosecution due to the illegitimacy of the income.
- It has already lead to reduction of money circulation in the economy and this may result in deflation
- A lot of cash which are legally earned will be deposited in the banks and now the banks with more deposits will be able to do more lending and the rate of lending may come down
- Accessibility of loans will become easier and as interest rates reduce economic activity will be boosted.

VII. Advantages of Demonetization

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- The demonetization decision taken by the government will help to eliminate black money and corruption to large extent
 - Due to lack of funding there will be no arms smuggling and all the terrorist activities will also be reduced
 - Withdrawal limits set by the RBI has reduced currency circulation. Therefore card transactions will slowly replace the cash transactions in daily activities
 - The regulations for exchange of money in banks on producing a valid identity card like PAN, Aadhar card and electoral card will facilitate the government to track the money which is being exchanged
 - Financial Intelligence Unit will track all details of the transactions from the banks. Therefore, now it is difficult to hide the black money
 - Real estate industry will have more transparency and credibility, making it more attractive to the foreign investors as well as domestic investors

VIII. Disadvantages of Demonetization

- It has caused great inconvenience to common man who struggled to exchange old high denomination notes
- Replacing all the old high denomination notes, as ordered by the government, could heavily cost the RBI
- The general business activity has tremendously effected resulting thousands of crores of loss to the national income after demonetisation announcement
- It has taken a toll on half of the population who are not well versed with the card transactions
- The major problem is that big fishes will be left out whose black money is in the form of foreign currency, gold and property and stashed in tax havens
- The ATM recalibration will take time.

IX. Role of Banks in Handling Demonetization

Bank has led from the front in successfully reaching out to the customers in their banking transactions, be it waiver of charges or extended business hours into late evenings or to go out of their way in supporting senior citizens and women customers as well as noncustomers.

X. Demonetization as a Tool of Financial Inclusion

Demonetization has become blessing in disguise to the cause of financial inclusion. It is resulted in rapid banking education to the vast multitude of unbanked and semi-banked population otherwise impossible. Though demonetization has halted all regular banking business operations and loss of revenues temporarily, it has not gone waste and served the purpose of financial inclusion.

XI. Conclusion

The rewards of demonetization are much encouraging and the demonetization is in the long term interest of the country. Government need to ensure that there will be a smooth flow of currency exchanges. Demonetization will have a massive impact on parallel economy. The current demonetization initiative by the Government of India will take Indians ten steps ahead. Though it is has given temporary pains, it taught financial lessons. It will also impact corruption, elections and terrorism. It is a reaping time for the banks that made considerable investments on digitization of banking services. The cashless and transparent mechanism has gained momentum post demonetization. It has led to increased financial inclusion and this momentum should be continued till India achieves complete financial inclusion.

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Demonetization in India: Merits and Demerits

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Abstract

Nowadays Demonetization is a common phenomenon in India, People from all sectors are discussing the major advantages and disadvantages of it. It is impacted on all sectors like infrastructure, industries, business, tourism, trade & commerce etc. It is a major economic reform to boost the Indian economy. It promoted Digital India, Cashless Economy and techno-savvy consumer. Here in this paper an attempt has been made to describe the meaning of demonetization, its history, merits and demerits. Finally it identifies the major findings and highlights of demonetization.

Keywords: Indian Economy, Cashless Economy, Economic reforms and Business Sector

Introduction

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India is a wonderland; it is totally different from the rest of the countries of the world. India continent not a country because of its widest and deepest diversity is getting ready to be one of the greatest powers of the World in the new millennium. Demonetization of 2016 is one of the most dominant economical milestones in the biggest democratic country India. It is considered as one of the most important financial revolution of modern India. Every Indian citizen witnessed the implications of demonetization of 2016. It is a generation's memorable experience and it is one of the major steps towards economic reforms in India. It affects the economy through liquidity side. Demonetization is a technically liquidity shock; a sudden stop in terms of currency availability. It creates a situation where lack of currency jams, consumption, investment, production, employment and business etc.

Meaning

Demonetization is a process by which a series of currency will not be legal tender. The series of currency will not be acceptable as valid currency. It is the act of stripping a currency unit of its status as legal. It occurs whenever there is a change of national currency the current form or forms of money is pulled from circulation and retired, often to be replaced with new currency or notes or coins.

Why Demonetization?

Demonetization decision has been taken for several reasons

- To control terror activities
- To control illegal economical activities
- To control black money circulation
- To control inflation
- To promote cashless economy
- To promote digital transactions
- To promote e-commerce

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- To Keep stability in price level
 - To improve the level of Gross Domestic Product (GDP)

History of Demonetization in India

India is developing economy. The economic stagnation and the vicious circle of poverty which characterized the pre-independence Indian economy are slowly but steadily giving place to rapid economic activity and higher levels of income under the impact of economic planning. Demonetization happened three times in the history till date. The Indian government had demonetized bank notes for the first time in 1946 and thereafter in 1978. On both occasions the stated objective was to curb black money, illegal money laundering and tax evasion.

In 1946, the British government had wanted a negative impact of demonetization to jeopardize Indian trade since it was generating profits and supplying the Allies with resources in World War II. In 1978, the coalition government headed by Sri Morarji Desai expunged paper currency of 1000, 5000 and 10,000 rupees, again with the goal of restricting black money and curbing the production of duplicate money.

Demonetization of 2016

On 8th November 2016, the Prime Minister of India Shri Narendra Modi, in a sudden address on media, announced the immediate demonetization of all Rs. 500 and Rs. 1,000 bank notes of Indian currency to be expunged almost overnight. In the announcement he stated that the use of all Rs. 500 and Rs. 1000 banknotes of the old currency would be invalid past midnight, and informed that new Rs. 500 and Rs. 2000 banknotes of the new currency series would be issued in exchange for the old currency notes within December 30, 2016.

Merits

- Terror activities have been reduced
- Black money demolished
- Criminal activities like robbery, theft activities have been controlled
- Abolished high denominated fake currency
- Jammu and Kashmir moved back to normal stage

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- Small vendors have been started using card machines and mobile applications for their business
 - People started using online payments
 - Tax revenues are raised to government
 - Cashless Economy has been promoted
 - Illegal transactions rate is reduced

Demerits

- It caused huge inconvenience to the common people.
- The sudden announcement has made the situation become panic.
- Many Poor daily wage workers become unemployed.
- It badly hit on business sector
- Due to cash crunch, the entire economy has made to come to a standstill.
- Government has to bear the cost of printing of the new currency notes.
- The Rs. 2000 new note is a burden on the people as no one likes to do transaction with such a high value currency

Major Findings of Demonetization

- India is still widely unbanked country
- Many among the poor don't have bank account
- Unwanted expenditure is reduced
- Curb black money
- Curb inflation
- Curb terrorism
- Curb naxalites.

Conclusion

Demonetization led to the major experiences and it is going to be one of the most economic milestones of our Indian Economy. It is impacted on social, economic, cultural, political and other sectors. It is widely impacted on Indian economy, trade and commerce. The common people of India have struggled a lot during demonetization period. . In a country with a high percentage of rural population it was not easy to access ATMs or banks as there were very few banks in the rural areas.

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Demonetization: A Sudden Move, Its Impacts

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Abstract

Cancellation of legal tender of 86% currency in a blink of time on 8th November 2016 created instant interruption in daily lives, businesses, economy and money. India having the highest level of currencies in circulation @12.1 of GDP and the cash in hand estimated around 3.2% of household assets which is higher than investment in equities of this cash of 86% is in the form of Rs 500 and Rs 1000 notes roughly Rs14 lakh crores (\$190 billion). A study reveals that major portion of the cash on hand is out of the tax bracket and demonetization was done with an intention of curbing the corruption and tax evasion. The present study paper focuses on the consequences occurred due to the decision of demonetization in India.

Key words: Demonetization, Currency, Economy, Impact

1. Introduction

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Demonetization is defined as act of stepping a currency unit of its status as legal tender. It refers to cessation of current currency and replacing it with currency. It is a act of changing the exiting currency in another form. the old units should be retired and replaced by new currency. in another words demonetization means either introducing new notes/coins of the same currency or fully replacing the old currency with the new currency. There is an one important thing exist on economics, which is re-monetization in which forms of payment is restored as legal tender. Government had many objectives behind demonetizing the corruption and bringing income of many individual in to tax bracket which were out of it illegitimately earlier tackle black money in the economy to reduce the cash circulation in the country which was directly related to the corruption, elimination of fake currency from the economy which was effecting economic condition of the country which was the main source for terrorism funding.

Demonetization affected every Indian, every sector of course. soon after the announcement of demonetization Indian stock exchange indices fell to a six month low in the week which followed by the announcement on the very next day of demonetization announcement. BSE SENSEX lost nearly 1689 points and NIFTY by over 541 points .

The present study deals with the demonetization scenario in India and world and its effects on the different sectors of the economy.

2. Objectives of the study

1. To study the impact of demonetization on Indian economy.
2. To know outcome of the note ban decision.

3. Methodology

The paper is based on secondary data. The data has been collected from different secondary sources of data like: websites, former research works, newspapers. To analyze the collected data statistical graphs like line chart, pi-chart and bar diagrams are used.

4. History of Major Demonetization in Indian Scenario

January 1946 demonetization move: Two ordinances were issued by the government on January 12, 1946. The first one asked banks to share (provide) information about the currency holding in terms of notes with big denominations i.e. Rupees 500, 1000 and 10000. The second ordinance meant for public stated that notes with denomination of Rupees 500and

above were going to be demonetized and exchange with Rupees 100 denomination note within a time limit

January 23, 1946 and later extended while conditioned that individuals would have to make clarify why they couldn't exchange the in previous limited time frame. The outcome was almost a big failure since out of total notes issued having value Rupees 143.97 core, the notes exchanged having value Rupees 134.9 core.

January 1978 demonetization move [2]: The second major demonetization move in India got momentum on January 14, 1978 announced at 9 a.m. through All India Radio. The announcement stated that within a limited time frame of three days, people could exchange their high denomination notes i.e. Rupees 500, 1000 and 10000. This time, such demonetization was a futile exercise with no destroyed any money stock at all.

November 2016 demonetization The Indian government moved as well as decided on November 8, 2016 to demonetize the two notes with biggest denomination i.e. Rupees 500 and 1000 which are in combine recorded with 86 % participation in the total cash supply chain of the country. As announced by our Honorable Prime Minister Shri Narendra Modi on November 8, 2016 in a non-scheduled live televised address that the notes with denomination of Rupees 500 and 1000 having Mahatma Gandhi series would be treated as ceased after the midnight of November 8, 2016 and stated as well that the new currency notes of Rupees 500 and 1000 denomination with the new Mahatma Gandhi series will be issued as an exchange of old banknotes as legal tender. However, the government also clarified that the notes with denomination of Rupees 100, 50, 20, 10 and 5 having Mahatma Gandhi series as well as notes of Rupees 2 and 1 will remain legal and not influenced by the policy announced. The government also stated that the intention behind this move is to abolish counterfeiting of nation's existing currency which is an illegal source for funding terrorism as well as to overcome the black money. The other intention as clarified by the government behind this move includes effort to counterattack on corruption, drugs usage as well as smuggling. This tragic demonetization move of existing central government got welcome support from international personalities as well as on behalf of many bankers at the initial level while enough criticized and even facing criticism by the parties in opposition at both houses in parliament. Some protests are also notified at some places in India against the demonetization move of the present Government.

5. Demonetization in other countries

SN	Country	Year	Effect	Reasons for failure
1	Ghana	1982	Made economy weak, unsuccessful	People support black market and investment in physical assets
2	Nigeria	1984	Economy collapsed	Debt ridden and inflation did not take change well
3	Myanmar	1987	Unsuccessful	Led to mass protest resulting in killing of many people
4	Soviet Union	1991	Unsuccessful	People did not take change positively
5	Australia	1996	No side effects	As the purpose was only to replace paper with plastic
6	North Korea	2010	Weak, unsuccessful	People left with no food and shelter
7	Zimbabwe	2015	Weak, unsuccessful	Face value one hundred trillion dollars dropped to \$ 0.5 dollar

6. Consequences of demonetization on different sectors of economy

6.1 Effect of demonetization on agriculture sector of India

Agriculture plays an important role in the Indian economy. Over 70 % of the rural households depend on agriculture. Agriculture is the backbone of Indian economy as it contributes about 17% to the total GDP and provides employment to over 60% of the population. It also provides raw materials to leading industries such as cotton textiles and sugar industries. The number of various agricultural commodities like tea, coffee, spices and tobacco constitutes our main items of exports. This amounts to almost 15% of India's total exports. Hence agriculture provides foreign exchange which helps us to purchase machines from abroad. It also maintains a balance of payments and makes our country self-sufficient. Agriculture has brought fame to the country. India holds first position in the world for the production of tea and groundnuts, Indian agriculture has registered speedy growth over last few decades

Demonetization has affected every Indian, but it has hit the agricultural sector badly. Agriculture in India accounts for 50 percent of the workforce. Farmers, who are the backbone of the Indian economy, have suffered a major setback due to nationwide cash shortage and a fall in the demand for vegetables in wholesale markets. . Farmers were not able to purchase

inputs like seeds from market. They were using old seeds from the last year harvest and not purchasing new quality seeds from market. In northern Indian states, the crop of rice was prepared. Some of the farmers have sold their crops, and some was in the process. It is true that almost crops are sold in cash the transaction which has been done is cash is to be deposited in the banks and can be withdrawn accordingly.

The consumers of rural farmer are not as advance as the urban middle class, which can be easily managed with a very little amount of cash. The problem of the demonetization is largely associated with the rural areas of the country have lesser number of banks and ATMs compared to the urban areas and semi-urban areas. The problem was not the inaccessibility of the banks and ATMs, but the limit on cash which can be withdrawn. A farmer can take a day out from his busy schedule and manage to go to bank and get the cash back, however the limit on the amount withdrawal forces him to do that again and again and the banks in rural areas are some 20 or 30 kilometers the roads in rural areas can make it look like 50 kms. Repeating that 4 or 5 times in a week can be exhaustive. However, the limit has been exceeded than before and government is taking other necessary formalities which would ensure that the farmer does not have to commit suicide. If the income of peon working in government services and farmers of our country is compared since 1964, the income of peon has increased 1000 % and that of farmers by meager 19%. Besides those negative effects of demonetization there is also hope of every Indian farmer upon demonetization that this historical step will concrete our economy and also fruitful for our country in future.

6.2. Effect of demonetization on Banking industry

The demonetization somehow reduced consumption activity in economy of India. But it increased the money in banks. At the time of demonetization the consumption had reduced and the market become slowdown, but the increase in the deposition in the bank would be better for economy in future. After demonetization announcement deposition in Indian bank has increased, According to reserve bank India, deposits crossed 5 trillion rupees from 10th November to 18th November. Due to this many banks like SBI, ICICI, HDFC PNB reduced their deposits rates.

6.3. Impact of demonetization on Indian financial market

After demonetization Indian financial market has been followed just like secular falling trend. Nifty 50 fell approx 6.3% and S&P BSE Sensex Fell 5.9% from 8 November to 22

November. The Sensex is made up of very large companies which may not be impacted as much by the demonetization process. BSE's mid-cap and small-cap indices have fallen by over 6%. And in truth, the largest impact of the government's move will be in the unorganized sector, which isn't represented in the market.

6.4. Impact of demonetization on Real estate

During November-December 2016, the monthly average housing sales fell about 40% in the top nine cities like Gurgaon, Ahmadabad, Kolkata, Chennai, Hyderabad, Bengaluru, Pune, Mumbai and Noida. Before demonetization the monthly average house sales was 19000 units in July month and 18000 units in October month. The monthly average sales were reduced drastically during November-December months by 40% and 49% respectively. The government had announced the demonetization move on November 8, raising hopes of sharp fall in prices in property market, especially secondary or resale segment. Starting of third quarter, October month showing best performance, but November and December both negatively impacted by the demonetization, 50% of the total sales in the third quarter contributed by October month. The real estate developers were focusing their efforts to attract customers by offering additional free benefits like jewellery, electronic items, automobiles, holiday package and appliances on the purchase of housing units. Builders also offered the price guarantee, rental assurance, and buyback schemes to bring confidence in the sector.

6.5. Impact of demonetization on FMCG industry

FMCC industry had gone down by 1-1.5% or Rs 3,840 crore in November, compared to October. The purchase in November had gone down by 6.4% compared to October. Purchase of personal care items such as toilet soaps, tooth paste and shampoo had seen the greatest fall by retailers. According to consumer point of view, one out of five housewives had reduced spending by 50% or more. They had cut spends across categories for impulse categories such as biscuits, salty snacks compared to everyday essentials like atta, rice, pulse, sugar.

6.6. Impact of demonetization on next financial Year

A study reveals that, the targeted economic growth rates about 7.5% presented by Indian government for upcoming financial year is over optimistic. It is said that the decision about ban on currency note has adversely affected the industrial sector. It affected the IT sector which is 45% of the India's Gross Domestic Product, and approximately 80% of India's employment depends upon IT sector

7. Conclusion

Demonetization is one such step taken by Government of India to combat with black money and corruption. Although the demonetization created many problems like citizens facing queue problems in the banks and ATMs, faced a problem of less consumption due to lack of liquid cash and it had left no sector of the economy from its consequences, but country was hoping for a better results to occur based on the intentions it had on its implementation. It seems to be bitter pill and clear that management of the crisis after the demonetization plays a vital role in ensuring the success of it. Better preparedness in terms of a game plan and policies and strategies might ensured better results.

It is quite hard to judge the success rate of the act of demonetization as many research works reveal both positive and negative outcomes, but the only truth is, it had its impacts.

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A study on Social impact of Demonetization in India

Prof. Vedamurtharadhy¹⁶ and Prof. Annaiah M D¹⁷

Abstract

India has amongst the highest level of currencies in circulation at 12.1% of GDP. Cash on hand is an estimated at around 3.2% of household assets, higher than investment in equities, or roughly around \$ 220 billion. Of this cash, 87% is in the form of Rs 500 and Rs 1,000 notes or roughly Rs 14 lakh crore (\$190 billion). Demonetization is a process by which a series of currency will not be legal tender. The series of currency will not be acceptable as valid currency. The demonetization was done in Nov 2016 in as an effort to stop counterfeiting of the current currency notes allegedly used for funding terrorism, as well as a crackdown on black money in the country. Demonetization is a generations' memorable experience and is going to be one of the economic events of our time. Its impact is felt by every Indian citizen. Demonetization affects the economy through the liquidity side. Its effect will be a telling one because nearly 86% of currency value in circulation was withdrawn without replacing bulk of

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it. As a result of the withdrawal of Rs 500 and Rs 1000 notes, there occurred huge gap in the currency composition as after Rs 100; Rs 2000 is the only denomination.

Keywords- *Demonetizations, Indian Economy, Currency Notes, Black Money, Govt. Of India, Modi Government*

Introduction

On November 8, 2017 Indian Prime Minister Mr. Narendra Modi took a historic decision by announcing that the high-denomination notes (Rs 500 and Rs 1,000) then in circulation would cease to be legal tender. With demonetization effort 86% of India's currency was nullified that aimed to wash the stock of 'black market's cash supply' and counterfeit notes out of the economy and convert it into the licit, banked and taxable, part of the economy. To reduce the impact of sudden commercial collapse, a 50 day period ensued where the population could (ideally) exchange their canceled cash for newly designed 500 and 2,000 rupee notes or deposit them into bank accounts. Irrespective of the widespread anguish and household disturbances, an optimistic sentiment shown in favour of the decision. This move is expected to cleanse the formal economic system and discard black money from the same. The reasons of it are as under:

- To tackle black money in the economy;
- To lower the cash circulation in the country which is directly related to corruption in our country;
- To eliminate fake currency and dodgy funds which have been used by terror groups to fund terrorism in India

India has amazing potentialities to surpass every developing and developed nation. It has everything in terms of resources and minds. It is the responsibility to embrace willingness to change. The epoch-making revolution unleashed in India by the recent announcement of Demonetization and the replacement of high denomination currency by the government is being perceived by everyone as the next wave of change and growth. Demonetization, the act

of stripping a currency unit of its status as legal tender is expected to alter the nation's conduct and will infuse more formal savings into financial markets instead of dead assets. Demonetization, is a bold decision that paves the way to put an end to black money, hawala transactions and fostering terrorist activities. There comes a time in the history of a nation when a major shake-up has to be effected by taking a momentous decision to bring about a tectonic shift in the attitudes of the people, especially those who have been exploiting and milking the loopholes in the system for begetting illegal and tainted wealth. Attempts to strike at hoarders, the corrupt and terrorists are laudable, but the method adopted was fraught with grave consequences. The immediate cash crunch and everyday difficulties are not without a positive fallout. Nobody can deny that there is pain due to rationing and paucity of currency notes, but there is surely some progress and this decision has been hailed by most countries. This one decision has ensured that a lot of money has come into the banking system, a lot of informal savings have become formal now, and therefore, the tendency to invest these more formal savings in instruments that you keep an eye on is also increasing. This move would enable banks to channel these to productive assets and offer differentiated interest rate to borrowers while lowering the risk of bad loan. India remained a cash based economy hence the circulation of Fake Indian Currency Notes continued to be a menace. Moving to an economy with lower amounts of cash in circulation will help the country to reduce its fiscal deficit and increase budgetary allocations for defence and rural infrastructure.

History of Demonetization in India:

The Reserve Bank manages currency in India and derives its role in currency management on the basis of the Reserve Bank of India Act, 1934. The rupee is named after the silver coin, rupiya, first issued by Sultan Sher Shah Suri in the 16th century and later continued by the Mughal Empire.

- The sudden move to demonetize Rs 500 and Rs 1,000 currency notes is not new. Rs 1,000 and higher denomination notes were first demonetized in January 1946 and again in 1978.
- The highest denomination note ever printed by the Reserve Bank of India was the Rs 10,000 note in 1938 and again in 1954. But these notes were demonetized in January 1946 and again in January 1978, according to RBI data. Rs 1,000 and Rs 10,000 bank notes were in circulation prior to January 1946. Higher denomination

banknotes of Rs 1,000, Rs 5,000 and Rs 10,000 were reintroduced in 1954 and all of them were demonetized in January 1978.

Need of the study

Demonetization has been used as a macro - economic policy by the government to regulate or modify the economic affair of the country in keeping certain objective to tackle issues affecting the economy like a parallel economy, counterfeit currency in circulation and terror financing, corruption, hawala transactions, etc. Government attempt to assess the behaviour of the economy as a whole and to seek ways in which its aggregate performance might be improved. Due to demonetization various social impact aroused which was not ascertained before the implementation of Demonetization.

Social Impact

The information on demonetization was released suddenly and the worst affected was the common man. The social impact was drastic with marriages facing severe issues with cash transactions in marriages coming to a standstill. People conducting marriages must produce the marriage invitation to withdraw 2, 50,000 and above. This has caused great hassles among the public. The impact on the health care sector was huge with most of the hospitals refused to accept the old currency. The issue was faced by the Union Minister Mr. Sidharamaiah in Bengaluru when the hospital administration refused to accept the old currency to retrieve his brother's dead body. The common man faced severe issues transacting in the hospitals with old currencies and several cases of death have been registered for not attending the patients due to demonetization. During the demonetization long que of aboyt 1 to 2 kilometer was seen in several part. Despite of that it was not gurantee that the one will get money form the ATM or bank. Some people starts moving to the bank from the last night. There were a severe shortage of cash.

The demonetization has a positive impact on the common people that now they the use of digital currencies got increased. So the people no need to carry physical currencies to any places which also reduced the crime rate. The price of some of the important commodities got decreased.

1) Unemployment

It is a one of the macro economic issue which is to be address by the macro economic policy. Due to demonetization it is presumed that unemployment get increased due to shut

down of those business which are running totally on cash. It will not affect jobs unless the employer is running businesses completely based on unaccounted money and wealth but if former is the case, then the business owner will run bankrupt and will be forced to change the way he/she does business which might affect jobs of people working under them. Employment in organized sectors will be largely unaffected if the demonetization is handled adroitly by the govt. and does not take too long. Total liquidity squeeze on the purchasing power of people extending into quarter IV will lead to a slowdown in sales of every product and service. For the unorganized sector the effect on employment has been terrible. A large part of the unorganized sector deals only in unaccounted cash. This has come to a grinding halt and chances are it is a permanent halt. The vacuum left by this type of enterprise will be filled by mainstream enterprise but the switchover will take a long time. The poor will bear the brunt since unemployment will lead to a contraction in wages. If the demonetizing leads to huge extinguished obligation of the govt in the form of old currency not tendered for exchange or credit, then the govt. will have the leeway to alleviate the problems and unemployment through heavy investment in rural infrastructure for enough employment to offset the effect of demonetization. The turnover of the parallel economy part of which will merge into mainstream economy will keep stock markets buoyant and increase potential future sales of products and services.

2) Problem Related To Marriage Issue

The month of November and December are considered to be auspicious for marriages and Demonetization created a chaos among families where weddings were due. The wedding season is the time of the year when traders do most of their business but lack of liquidity has led to problems. People are not even in the position to pay the advance. Cancellations of orders have been jumped at peak after the announcement of withdrawal of High denomination currency. Thus, those who have deposited money in the banks following demonetization are now feeling cheated as they are not being able to withdraw the money even if they have sufficient balance in their account. Even as the government has allowed withdrawing of Rs 2.5 lakh for those who have weddings ahead in their homes, what seems to ease the currency crunch in the need of the hour is not serving its purpose. The long list of documents and certain rules has failed to spread happiness in several families. There are many customers who are being asked by the bank authorities to furnish all the details as to where all they would be using the

money. Likewise, those who are coming to bank for withdrawing money for marriages are being asked to submit PAN card, the beneficiary will also have to submit the receipts of all the purchases and payment made from the money withdrawn from the bank. Only those account holder, who have marriages before December 30 can withdraw money. Yet, banks should encourage families to incur wedding expenses through non-cash means viz. cheques /drafts, credit/debit cards, prepaid cards, mobile transfers, internet banking channels, NEFT/RTGS, etc. as per RBI guidelines. Therefore, members of the public should be advised, while granting cash withdrawals, to use cash to meet expenses which have to be met only through cash mode.

3) Issue Faced By Farmer

The currency crunch resulted by the Centre's demonetisation move is set to hit farmers, agriculture produce market committees (APMCs) and farm produce transporters ahead of a bright Rabi season, forcing the government to plan measures to tackle the impending crisis due to demonetization. Due to sudden decision of the Government of India, farmers were facing difficulties for sowing in the Rabi crop season. They were facing difficulties in arranging seeds and fertilisers. The farmers were also not able to utilise the earnings of the Kharif harvest and put it to their use and faced with severe crisis due to the demonetization decision. Co-operative banks, where most of the farmers' savings lie, are unable to exchange or accept deposits being made by the farmers in scrapped notes, and also cannot give them loans. Because of this the farmers cannot buy seeds for the next season and another situation of food shortage seems to be on a row. Most of the farmers are not depositing cash in the bank and are trying to exchange the notes at higher rates. Due to the cash crunch, they could not purchase any raw material and their daily life has been affected.

4) Problem Faced By Tourist

Cash-crunch triggered by demonetisation of high denomination currency notes is not only causing inconvenience to people in the country, but foreign tourists visiting here are equally troubled as they are unable to use smaller denominations. In various regions spread across India, many Indian tourists who rely on cash while travelling domestically are stranded and suffering from long queues and due to non-functioning ATMs causing a serious scarcity of cash. Foreign tourists facing problems due to lack of awareness. Most foreign tourists were unaware of the government decision and its intricacies. Tourists faced problem exchanging currency as with both banks and Automatic Teller Machines (ATM) shut. Tourists have cut

short their trips as they are facing problems with long queues at the banks and ATMs not coughing up enough money to cover their expenses. Many travellers have cancelled their trips at the last minute due to non availability of cash in the market.

5) Terrorism

Due to demonetize the high denomination currency has completely choked the illegal Pakistani hawala funding of the Kashmiri separatists and as such the terrorism industry they had created with black money has suddenly crumbled. Not only has the move to demonetize the higher currency note dealt a massive blow to the Kashmiri terror industry, it has also stunned the dubious „human rights activists and civil society groups“ acting as apologists for terror activities who will now face a tough time in explaining the sources of their income and assets. The modus operandi of the terror industry was simple. The money was then spent on training, purchasing of arms and ammunition and sent to local militants in Kashmir, and thus Kashmir saw a massive upsurge in the recruitment of local in militant outfits in the past few years. With de-monetization of the big currency notes, not only has such funding being blocked, the cash in hands of terrorists and their agents have been rendered worthless. There are four essential elements needed by terrorists and organised crime groups to achieve its objectives – mobility, logistic bases, communications and financing. In a developing country like India, only the communication aspect is within the surveillance capability of law enforcement agencies and it is fairly easy to obtain and leverage the remaining three without detection. Changing national currency is an extremely expensive exercise, so this is not a move that any government can implement frequently to purge out fake currency from its economy. Even though demonetisation will undoubtedly deal a severe blow to the black economy, corruption, inflated pricing and tax evasion. The masterstroke by the government will also lead to a major shift in the terror infrastructure management and change the character as well as nature of terror funding in the country. Lack of hawala money inflow will majorly hit activities of Maoists and other insurgent groups in the northeastern states. They will be also be hit hard as the stocked currency has become useless and availability of new highvalue notes is not in abundance.

6) Issue Related To Common Man And Wastage Of Quality Time Of People Standing in a Queues

Welfare loss for the currency using population: Most active segments of the population who constitute the „base of the pyramid“ uses currency to meet their transactions. The real issue is how the common man been affected by the drive. The current demonetisation has adversely affected the poor, wage labourers, small businesses, farmers and other minorities. Often these small income earners save cash for a rainy day. The incidence of bank accounts and bank transactions will be extremely low among these groups. These are the communities who do not engage in the formal banking sector too much. Rather they save their daily or weekly wages in cash, often in large denominations. It is these groups who have been hit the most by the demonetisation drive. Harassed people queuing for hours. The largest adversely affected group, numerically, is the working class. Casual workers are at the bottom of the working-class hierarchy. Their incomes are the lowest and least secure. They spend the money as they earn it. Meanwhile, they would have had no money to buy food, medicines or other essentials, and God help them if they had a medical emergency. Next, there are the medium-skilled blue- and white-collar workers in the unorganized sector and contract workers in the organized sector. Finally, there are the regular organized-sector workers, the most skilled and the best paid. All of these wage/salary recipients would have received their wages shortly before the demonetization. They too would have had to miss work and queue up at banks or ATMs to convert their money. Without conversion, they would have had no usable money for food, medical expenses and other essentials. Transportation of currency and its security was a challenge at initial stage as effective management of logistics was the key in this cash crunch, to serve the nation best. Non Availability of Cash at central bank and complications in its disbursal created money in the economy scant. Problems related to management and calibration of ATMs to make them suitable for the disbursal of new currency. Productive man hours being lost as people are still waiting to exchange or deposit old currency during working hours.

Expected Outcome/ Benefit

There are many benefits that will come with the government“s move. The size of the formal economy which the government can manage though its policy actions will increase, perhaps significantly. This step may have positive implications for tax revenues in longer term. There may even be influences on the growth rate of GDP. However, for sectors like real estate, a notorious hotbed for black money transactions, there will likely be disinflationary pressures in short term, with prices being pushed downward before they stabilize in longer term. The

government could see tax gains if it succeeds in "unearthing unaccountable money" from the shadow economy. Hard cash held as black money will be brought into the system which is traceable and taxable henceforth thereby increasing the government revenue. To the extent of penalties imposed by the Income Tax department on the illegal conversion of black money into white money, the revenue to the government will increase in the immediate future. Unaccounted monies held as cash which was not productive will become productive as it enters the legal system. Counterfeit money in circulation which was a ongoing menace all over India will cease to exist with immediate effect. Funding of terrorist and other illegal activities will be curtailed as they generally are funded by black/counterfeit money. With huge cash at the disposal of the banks, the borrowing of money will get cheaper providing impetus to economic growth. Government can avail finances at lower rates and speed up the infrastructural spending creating huge job opportunities.

Recommendation and Suggestion

1. Demonetization move would bring more transparency in the sector but to prevent illegal transaction, the government must cultivate the habit of "cashless transactions " among the people and print less number of currency notes in future to avoid hard cash transactions ,responsible for creating "unaccounted money" . The government could encourage more widespread adoption of cashless payments in the medium term, it could permanently improve liquidity in the banking system.
2. Screw tightening of NGO and need to bring amendment in Charitable trust and NGO who are running business under head and not paying any tax.
3. Government should have to take another bold step for corruption free, fair, equitable and equal society, then it should frame the rule for digital transaction for all political parties, Electoral trust and Non Government Organization in mandatory nature. Further abolish exemption under taxation rule and regulation and come under the purview of Right to information Act.
4. It has to be matched with a better, more streamlined and integrated tax system. The upcoming move to GST is a measure in the right direction, and the government needs to move forward with implementing the next steps of that reform measure. Widen the net for disclosure by filing Income Tax return. Create e-trails of both incomes and expenditure.

5. Establish identity of persons through PAN Card, Aadhar Card etc, operating in the country – citizens and foreigners.
6. Enable electronic register of assets through electronic land records, digitisation of revenue records.
7. Government should initiate the investigation in the matter like Temple donations, Back-dated FDs in co-operative banks and credit societies, giving loans to poor people, finding Jan Dhan account holders where high cash deposits has been done, Company and Institution Paying advance salaries to employees in cash and transaction undertaken by Jewellers during the period.
8. Government can initiate the work on allotment of single account no. in bank instead of person having multiple account no. Further Government may allot the Aadhaar no. as Account no. after merging the Banks.

Conclusion

The impact of demonetization was felt more in the social sector and the worst affected was also the poor and the common people. Salaried class is not still able to withdraw their salaries from the banks and ATMs as a result of cash deficit. Prime Minister Modi has encouraged doing financial transactions using mobile and other electronic means. It is clearly evident that India is moving towards cash less economy. This will curb the black money to a great extent but educating the masses on the mobile based money transaction is a huge challenge. Finally as a relief to poor people, GOI has announced that black money retrieved from the demonetization measure will be deposited for four years without interest on Kalyan Yojana to benefit the poor in marriage. This will create a positive impact on the social sector in the long run.

Demonetization is a historical step will definitely fetch results in the long term but in current scenario is not satisfactory as it discussed above. Micro, small and medium companies were badly affected due to demonetization. There is danger of personal information and data security issues. Moving to cashless transactions is a massive shift for a country where most people depend only on cash to make transactions. Implementing this is going to be a big challenge. Macro Economic issue like unemployment, price stability, economic growth, still needs to be addressed. This move is likely to improve tax collection in near future and

significant increase in no. of people for filing of return. In summary, this measure of demonetization is a measure that temporarily brings into the system the unaccounted money and generates additional taxes in the near future. Whether this measure is detrimental or beneficial is based on the amount of black money being brought into the system, not just cash but assets held in various forms. In its efforts to curtail the parallel economy in the country, the government should work on plugging the loopholes in tax administration, and invest in strengthening the mechanisms that will help restrict the outflow of black money to tax havens.

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Demonetization 2016 – An Analysis of Impact on Economy and Society in India

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Abstract:

Demonetization is a phenomenon where the legal status of currency notes have been ripped off by the monetary authority of a nation. This kind of experience has not been a new one for the Indian citizens. People of India have experience this event even in 1946 and 1978. Long queues at ATMs irrespective of weekdays or weekends, heavy purchase of gold and silver till midnight, panic on the faces of black money hoarders reminds us of an historical economic event that happened on November 8, 2016, at 8:00 P.M, that is demonetization of higher denomination currency of Rs. 500 and Rs. 1000. The step of demonization was taken up by the government in order to attain various objectives like- curtailment of counterfeit currency, eliminate the problem of black money, stop the funding of terrorism and naxalites activities. . Demonstration has also affected agriculture sector adversely, it was impacted by the input and output channels. The sale, distribution, transport marketing of the agricultural produce is majorly cash reliant and due to absence of the higher denomination currency and shortage of new currency notes in the market caused a downturn in the revenue generated the farmers. Rural areas suffered a slow growth rate due to excessive dependence on cash transactions. The urban sector in spite of having adequate bank branches, adequate use of debit cards, ATM and online banking, People then too suffered due to limiting of per head cash withdrawals and exchanges. With cash transactions impacted by a decrease in liquidity, alternative payment methods, such as e-wallets, online transactions using e-banking, debit and

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credit card usage have increased significantly. In long run the benefits of the demonetization will be positive as it will be a scary demon for the black money hoarders and manufacturers of counterfeit currency.

Keywords: *Black money, Demonetization, e- wallets, counterfeit currency*

Introduction:

Long queues at ATMs irrespective of weekdays or weekends, heavy purchase of gold and silver till midnight, panic on the faces of black money hoarders reminds us of an historical economic event that happened on November 8, 2016, at 8:00 P.M, that is demonetization of higher denomination currency of Rs. 500 and Rs. 1000.

Demonetization is a phenomenon where the legal status of currency notes have been ripped off by the monetary authority of a nation. This kind of experience has not been a new one for the Indian citizens. People of India have experience this event even in 1946 and 1978. Indian economy is a cash economy, as a result due to this step, it experienced a huge set back. In this condition becomes necessary to realise the importance of this initiative. The step of demonization was taken up by the government in order to attain various objectives like- curtailment of counterfeit currency, eliminate the problem of black money, stop the funding of terrorism and naxalite activities. The step of demonetization was taken up with the pure intension of cleansing the economy, but whether it has really happened so is a question mark. In this paper we analyse impact of demonetization on economic and social sphere of Indian economy to understand the impact of demonetization.

Demonetization:

The dictionary meaning of DEMONETIZE is “To deprive (a metal) of its capacity as a monetary standard” or “To withdraw from use as currency” so, demonetization is the act of stripping a currency unit of its status as legal tender. It is the act or process of removing the legal status of currency unit

On 8 November 2016, India’s Prime Minister Narendra Modi announced the Government of India’s decision to cancel the legal tender character of Rs.500 and Rs.1,000

banknotes with effect from 9 November 2016. He also announced the issuance of new Rs.500 and Rs.2,000 banknotes in exchange for the old banknotes. While the announcement essentially rendered the Rs.500 and Rs.1,000 banknotes invalid from 9 November 2016, the Ministry of Finance has been monitoring the implementation of these measures in a number of ways:

- Exchange of old currency notes for new Rs.500 and Rs.2,000 currency notes has been permitted until 31 December 2016.
- Such currency exchanges have been limited to certain specified amounts announced from time to time and excess amounts are required to be deposited with banks subject to applicable KYC requirements.
- Cash withdrawals have been limited to ensure adequate supply of new currency notes.
- Usage of old currency notes has been permitted for certain specified periods and purposes, such as at hospitals and pharmacies, gas stations and foreign currency exchange for tourists.

These are some of the steps taken by government to implement demonization, by causing minimum hassles to the people of the country. Demonization was taken up by the government to meet multiple objectives like- To promote a Cashless economy, to eradicate counterfeit currency, eliminate black money, to combat corruption, to combat inflation, to crackdown on terrorism and naxalism, to promote a cashless economy. All the objectives aimed by the government were in favour of the country's welfare, but all objectives were achieved or are yet to be achieved is a question mark. By analysing the impact of demonization on socioeconomic sphere of the country these questions can be answered to an extent.

History of Demonetization:

The history of demonetization in India can be classified into three periods namely, medieval India, pre-independence India The demonetization of the highest denomination currency notes is part of several measures undertaken by the government to address tax evasion, counterfeit currency and fun post-independence India.

Medieval India

Talking about medieval India, Muhammad Bin Tughlaq of the Tughlaq Dynasty (Delhi Sultanate) had introduced a token currency, i.e. coins made of brass and copper, the value of

which was made equal to that of gold and silver, the step taken by the Sultan can be termed as demonetization because gold and silver coins were deprived of their status as money and were replaced by brass and copper. This scheme, however, failed badly because every person started minting brass and copper coins at home and got it exchanged with Gold and Silver coins.

Pre-Independence India

The High Denomination Bank Notes (Demonetization) Ordinance, 1946 was passed on 12 January, 1946 by the then Governor General of India. According to the Ordinance, Rs. 500, Rs. 1,000 and Rs. 10,000 currency notes ceased to be legal tender post 12 January, 1946.

Post-Independence India

The High Group Bank Notes (Demonetization) Ordinance, 1978 was proclaimed by the President on 16 January, 1978. The Ordinance was afterwards revoked and was substituted by the High Denomination Bank Notes (Demonetization) Act, 1978 on 30 March, 1978. According to this new law, Rs. 1,000, Rs. 5,000 and Rs. 10,000 denomination banknotes stopped being legal tender from 17 January, 1978. Section 4 imposed restrictions on exchange or receipt of such notes after 16 January, 1978.

Impact of Demonization on the Economy and Society:

Economic Impacts:

1. Primary sector: It is the backbone of Indian economy, almost 70% of rural households depend on it and it provides jobs to almost 56% of labour force according to 2011 census. The economic survey 2016, reveals that 17% of total GDP is generated through this sector and 10% of export earnings are derived from this sector. Demonstration has also affected this sector adversely, it was impacted by the input and output channels. The sale, distribution, transport marketing of the agricultural produce is majorly cash reliant and due to absence of the higher denomination currency and shortage of new currency notes in the market caused a downturn in the revenue generated the farmers. As a result of which, the farmers couldn't purchase seeds for the next harvest and the total production of various fruits and vegetables saw a downfall. But, these impacts are

short terms hiccups, but in long run these will be wiped up as the government will have adequate amount of revenue, which will be utilized for completion of ongoing irrigation projects, provision of agricultural subsidy, availability of loans at cheaper rate of interest which will help in asset creation for farmers, establishment of large number of warehouses can be observed, and due to digitalization of cash payment the farmers will gain strength in their bargaining power. In case of non farm activities, there was a downfall in the demand of goods and supply of the products in dairy farming, poultry, apiculture, etc was in excess of demand, but the kind of benefits of the agriculturist will experience due to demonization, the same will be experienced by labourers in non farm sector. Hence the overall benefit of Demonization can be reached in long run.

2. Secondary sector: Due to liquidity crunch, the manufacturing sector has been experiencing a slowdown, the old orders were not taken away and the new orders weren't placed. But inspite of the problem of liquidity crunch, the manufacturing services performed well as the currency was used to purchase the raw materials, inputs and other requirements rather than doing away with the cash. Hence some of the data revealed by the Central Statistics Office (CSO) on March 2017, showed industrial output rose by 2.7% in January 2017 from a decline of 1.6% during the same month a year earlier and above the revised 0.1% contraction in December 2016. The manufacturing sector, accounting for a little over 75% of the total Index of Industrial Production (IIP), grew 2.3% in January, up from a contraction of (-) 2.94% in January 2016 and (-) 1.97% in December 2016 but slower than November's 5.47% pace. The manufacturing sector rose by 2.3% in January 2017 as compared to a contraction of 2.9% in January 2016, while the electricity sector rose 3.9% year-on-year during the month compared to 6.6% expansion in the same month last year.
3. Service sector: service sector has been a major contributor of India's GDP, it generates almost 54-56% of GDP in India. But the sector experienced a slowdown due to liquidity crunch. But the impact on the sector can be analysed more effectively by analysing some of the sub sectors of this sector like- Banking, Automobile sales, real estate, construction, print media, education, health etc.
 - a) Banking sector: The rate of deposit increased, which created adequate base for credit creation for the banks. The financial savings are expected to increase as

a result of the shift from unproductive physical asset based savings to interest-bearing financial assets. This, in turn, is expected to enhance the liquidity position of banks, which can be leveraged for lending purposes. The sector in near future will also experience a paradigm shift towards creation of cashless economy. But it is important to note here, though the banks had enough of loans to be circulated, but the demand for the loans contracted due to the pessimistic atmosphere of investments.

- b) **Automobile:** In this sector a short term revival of demand for two wheeler vehicles, secondly due to reduction of rate of interest on vehicle loans and reduction of EMI, the demand for vehicles increased for short run. But this was observed only in urban areas and not much in rural areas as there the major transactions were done with cash and not loans. But presently the demand of SUVs and luxury cars is less due to demonization and combined impact of GST. The resale value of the vehicles also observed a downturn due to liquidity crunch.
 - c) **NBFC and Finance:** In case of gold finance, positive impact was observed in medium term. But on the other hand, micro finance was adversely hit in short term, but in medium term and long term the impact would be positive. Due to slowdown in real estate sector, the housing finance fell down rapidly.
 - d) **Construction:** In the his area the big projects came to a standstill due to cash crunch, especially the raw materials associated with this sector experienced a set back, nearly 60-65% of downfall was observed in the purchase of the inputs related to this sector.
 - e) **Real estate:** The small builders and contractors related to small cities and towns suffered largely as they were predominantly depending on cash transactions. Resale properties suffered more the primary sale of properties. Execution of major projects remained constant for a span of time. But in long run it will be beneficial due to combined effect of demonization, introduction of RERA and GST. The properties will become affordable to common man.
4. **Rural areas and Urban areas:** Rural areas suffered a slow growth rate due to excessive dependence on cash transactions. Secondly, due to lack of adequate bank branches,

uncertainty about the use of debit card, ATM, and online banking, unavailability of information and communication media, people were unclear about the event and also about the methods to tackle the hassles. On the other hand, the urban sector in spite of having adequate bank branches, adequate use of debit cards, ATM and online banking, People then too suffered due to limiting of per head cash withdrawals and exchanges. Certain traders and vendors got the advantage of hiking the price of essential goods on the basis of demonization and the expensive cost of living of urban areas became more expensive. But in medium term impact it was clearly observed that the average purchases of the people in both rural and urban areas declined sharply, which implies fall in the welfare and standard of living, loss to traders, imbalance between demand and supply.

5. Counterfeit Money: This historic move is primarily expected counterfeit money from the economy as they will be blocked since the owners will not be in a position to deposit the same in the banks. This move will stall the circulation of large volume of counterfeit currency at least for some time and will curb the funding for anti-social elements like smuggling, terrorism, espionage, etc. We can already see these effects taking shape from people with black money throwing currency into rivers like Ganga and Yamuna. There is also a downfall in the terrorist activities in Kashmir valley.
6. Uprooting the parallel economy: Demonization is a currency side step, it itself cannot uproot the problems related to black money, it can contribute in the eradication of the problem. Around Rs. 14.68 lakh crores of Rs. 15.44 lakh crores demonetized currency was obtained by RBI.
7. Tax Collection: Having closed the voluntary disclosure window for undisclosed money, it has been reported that government will keep a close watch on deposits over Rs 2 lakh in cash. This would mean increased tax net, higher tax collection and a better tax to GDP ratio. As the money gets accounted and more taxes are collected, government might be tempted to reduce tax rates going forward.
8. E-wallets: With cash transactions impacted by a decrease in liquidity, alternative payment methods, such as e-wallets, online transactions using e-banking, debit and credit card usage have increased significantly. This will increase usage of such payment systems, and enable a shift towards an efficient cashless infrastructure.

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9. Effect on Money Supply: With the older 500 and 1000 Rupees notes being scrapped, until the new 500 and 2000 Rupees notes get widely circulated in the market, money supply is expected to reduce in the short run. To the extent that black money (which is not counterfeit) does not re-enter the system, reserve money and hence money supply will decrease permanently. However gradually as the new notes get circulated in the market and the mismatch gets corrected, money supply will pick up.
 10. Effect on Demand: The overall demand is expected to be affected to an extent. The demand in following areas is to be impacted particularly consumer goods, real estate and property, gold and luxury goods, automobiles, all these mentioned sectors are expected to face certain moderation in demand from the consumer side, owing to the significant amount of cash transactions involved in these sectors.

Social Impacts: Demonetization has not only affected the business men, traders and enterprises, but has also had a grave impact on the citizens of the country. Due to demonetization, there has been a grave impact on the lives of the daily wage earners, who were dependent on people for their daily wages, if the customers who don't have money, the daily wage earners will also face difficulties, their families have lost two square meal a day and their kids faced the misfortune of losing the education opportunities in the mid of the year and the daily wage earners had to face a situation of debt trap. The senior citizens who were unaware about the use of ATMs and debit cards, faced a major trouble, and many of the senior citizens had to face long queues outside ATMs, which in turn caused health issues for the people. The situations were pathetic at hospital, where the patient's relatives could not pay the complete sums of treatment charges to the hospital due to exchange of old currency. The students who stayed hostels, far away from their home, also had to face difficulties to meet their basic requirements like stationery, food, health related products etc. November is a season of marriages, due to liquidity crunch most of the wedding ceremonies came to stand still. But, a benefit of demonetization was curb of dowry, which also benefited any of them, but due to absence of dowry most of the marriages broke up. Due to stress of demonetization almost 43 people faced heart attacks by standing in ATM queues and also due to shortage of cash. Demonetization gave a big blow to the gambling activities of the gamblers and smuggling activities were also ceased. This was positive impact of demonetization and certain other

crimes like – human trafficking, trade of narcotics, also came to standstill. Another long term benefit of demonetization is reduction of income inequalities of people of Indian economy.

Conclusion:

By analyzing the impacts of demonetization which were positive as well as negative, reveal that the step taken by government was beneficial for people, even though they suffered short term setbacks due to this steps, but in long run it would meet the set targets. In the process of demonetization, the banking officials made a huge benefit by exchanging old currency notes for new currency notes at 60% or 70%, if the banking official remained honest to receive the accounted cash, then the actual amount of estimated counterfeit notes could be recognized easily, but unfortunately this couldn't happen. Secondly the families who suffered due to death cannot forgive the existing government for this act, as the incident faced by them will not have temporary impact on their lives, rather will have a permanent impact on their lives. Thirdly, the activities of terrorist and naxalites would slow down just became successful only for the initial two-three month after introduction of demonetization, but the situation remained same in the later period. The question of GDP slow down cannot be answered, as demonetization is not the only cause for this act. The introduction of GST regime has also impacted the slowdown. Hence demonetization cannot be considered as the only cause for GDP slowdown. But in long run the benefits of the demonetization will be positive as it will be a scary demon for the black money hoarders and manufacturers of counterfeit currency.

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Repercussion of Demonetization on Indian Economy

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Introduction:

Demonetization is a generations' memorable experience and is going to be one of the event of our time. Its impact is felt by every Indian citizen. Demonetization, announced on 8th November 2016, has resulted in the withdrawal of the high denomination currency notes of Rs.1000 and Rs.500 as legal tender. These are being slowly replaced by new currency. This has suddenly created a shortage of currency which is implications for the economy. The issue is whether the effect visible are short-term of long-term. Those who support the decision argue that there would be a temporary slowdown in the economy in the third quarter of 2016-17. Report suggest that major sectors of the economy face a slowdown, be it agriculture, industry, service or the organized and unorganized sectors. The Reserve Bank of India has taken a cautious stance in its recent monetary policy statement stating that due to the influence already visible in the second quarter, the economy would slow down by 0.5%, but due to the uncertainty created by the demonetization, the full impact cannot be gauged at present. Heart rendering accounts of people dying, of a father not being able to save his child because he could not get medical attention due to his inability to get new notes, or of people collapsing in the long queues at the banks have appeared. An economy which the government claimed as the fastest growing economy in the world is suddenly facing a crisis due to demonetization.

Meaning of Demonetization:

Demonetization is the act of stripping a currency unit of its as legal tender. It occurs whenever there is a change of national currency. The current form of money is pulled from circulation and retired, often to be replaced with new notes or coins. Sometimes a country completely replaces the old currency with new currency.

Objectives of the Study:

1. To study the causes of demonetization.

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2. To analyse the positive effects of demonetization.
3. To analyse the negative effects of demonetization.
4. To examine the short-run and long-run impact on the economy.

History and Background of Demonetization in India:

There are three times demonetized of high denomination currency has made in India. In 1946, banknotes of 1000 and 10000 rupee were withdrawn and new notes of 1000, 5000 and 10000 rupee were introduced in 1954. The Janata party coalition government has again demonetized bank notes of 1000, 5000 and 10000 rupee on January 1978 as a means to curb counterfeit money and black money.

In 2012, the Central Board of Direct Taxes had recommended against demonetization, saying in a report that “demonetization may not be a solution for talking black money or economy, which is largely held in the form of benami properties, bullion and jewelry. On 28 October 2016 the total bank notes in circulation in India was 17.77 lakh crore (US \$260 billion) In terms of value, the annual report of Reserve Bank of India of 31 March 2016 stated that total bank notes in circulation valued to 16.42 lakh crore (US\$240 Billion) of which nearly 86% (around 14.18 lakh crore) was 500 and 1000 banknotes. In terms of volume, the report stated that 24% (around 22.03 billion) of the total 90266 million banknote were in circulation. The Indian rupee (INR) is the official currency of the Republic India. The rupee is subdivided into 100 paisa. The issuance of the currency is controlled by the India. The Reserve Bank manages currency in India and derives its role in currency management on the basis of the Reserve Bank of India Act, 1934. The rupee is named after silver coin, rupiya, first issued by Sulthan Sher Shah Suri in the 16th century and later continued by the Mughal Empire. In 2010, a new symbol was officially adopted. It was derived from the combination of the Devanagari consonant 'र' (ra) and the Latin capital letter “R” without its vertical bar (similar to the R rotunda). The parallel lines at the top (with white space between them) are said to make an allusion to the tri colour Indian flag and also depict an equality sign that symbolizes the nations’s desire to lessen economic inequality. The first series of coins with the new rupee symbol started in circulation on 8th July 2011. In a major step to check undeclared black money, the Government of India on the 8th November 2016 announced demonetization of Rs 500 and Rs 1000 banknotes with

effect from the same day's midnight, making these notes invalid. Apart from combating black money, the stated purpose is also to check fake currency (used to finance terrorism) and corruption. A new designed series of Rs 500 banknote, in addition to a new denomination of Rs 2000 banknote is in circulation since 10 November 2016. The new redesigned series is also expected to be introduced to the banknote demonetization of the banknote denominations of Rs 1000, Rs100 and Rs50 in the coming months.

The sudden move to demonetize Rs 500 and Rs1000 currency notes is not new. Rs 1000 and higher denomination notes were first demonetized in January 1946 and again in 1978. The higher denomination note ever printed by the Reserve Bank of India was the Rs10000 note in 1938 and again in 1954. But these notes were in circulation before January 1946 and again in January 1978, according to RBI data. Rs 1000 and Rs 10000 banknotes were in circulation before January 1946. Higher denomination notes of Rs 1000 , Rs 500 and Rs 10000 were reintroduced in 1954 and all of them were demonetized in January 1978. The Rs 1000 note made a comeback in November 2000. Rs 500 note came into circulation in October 1987. The move was then justified as attempt to maintain the volume of currency notes in circulation due to inflation. However, Rs 2000 currency note is introduced first time in India. Bank notes in Ashoka pillar watermark series in Rs 10 denomination were issued between 1967 and 1992, Rs 20 in 1972 and 1975, Rs 50 in 1975 and Rs 100 between 1967-1979.

The bank notes issued during this period contained the symbols representing science and technology, progress and orientation of India art forms. In the year 1980, the slogan 'Satyameva Jayate- 'truth alone shall prevail' –was incorporated under the national emblem for the first time. In October 1987, Rs 500 banknote was introduced with the portrait of Mahatma Gandhi and Ashoka Pillar watermark. Mahatma Gandhi (MG) series banknotes. In 1996 were issued in the denominations of Rs 5, (introduced in November 2001), Rs 10 (June 1996), Rs 20 (August 2001), Rs 50 (March 1997), Rs100 (June 1996), Rs 500 (October 1997) and Rs1000 (November 2000). The Mahatma Gandhi series 2005 bank notes were issued in the denomination of Rs 10, Rs20, Rs50, Rs100 Rs500 and Rs 1000 and contained some additional security features as compared to the 1996 MG series. The Rs 50 and Rs 100 banknotes were issued in August 2005, followed by Rs 500 and Rs 1000 denominations in October 2005 and Rs 10 and Rs20 in April 2006, respectively.

Impact of Demonetization on Indian Economy:

The present demonetization of Rs 500 and Rs 1000 notes have made lots of impact on all spheres of our economy. All possible influences can broadly divide in to two types, the positive influence and the negative influence. Each of them briefly explains in following section.

The Positive Influence:

The steps ensure national security, by choking down finances of terrorists and drug cartels. This step benefits the poor and middle class by reducing inflation in day to day life. This measure will not only discover unaccounted money but also adds tax revenue to the nation and bring the same in the in to economy and helps in catching the collars of culprits. It will not only bring equilibrium in the market but also lowers the unnecessary hype created in real estate. India's unfulfilled dream to see its young population to be highly educated and employable youth will also likely be achieved as now no hands of managements of educational institutions will stretch for donations. Terrorists, drug cartels have been regularly counterfeiting rupee 500 and 1000 notes as anti-social people are diagnosed with the problem of impatience to deal with currency with smaller denominations. An element of shock is essential to prevent them from being proactive and make necessary arrangements. This step also would also make ensures that prevailing unaccounted money would gradually come into public domain and help the common man.

The Official data from RBI shows that the accumulation of Rs500 and Rs 1000 notes are higher in the India economy rather that Rs 100 and other smaller denomination currency notes. Thus with the order to exchange Rs 500 and Rs 1000 notes through the banks, the government is in really increasing its shadowing on individuals to bring out tax payers. Every transaction will now tracked by Union government to bring all eligible citizens under the purview of income tax.

It is known fact that several terrorists organizations and others, infuse fake currency in to the Indian economy to destabilize the Indian currency and its economy. According to RBI data, fake currencies worth Rs 16.50 lakh crore have been circulating in India with most of

them in high-valued denominations. It is almost impossible for illiterate and rural population to differentiate between a legitimate and fake currency. Hence, the move to completely replace the old currency with security featured new currency removes the fake mask put on currency note. The move of demonetization also helps in reducing the impact of unwarranted boom created by realtors as there will be a lack of fake notes now. India is a cash-rich economy and major transactions in the country are done through cash mode. This was a major challenge for the Indian government as it wanted to track down the tax payers. Moreover the government is also burdened with the cost of printing currency notes apart from keeping a watching eye on fake currency. Thus, this new step of demonetization connately acts as a panacea for all the economic evils of the nation. Last but not the least, demonetization will also persuade people to go for increased number of e-transactions with which transference can be maintained at all levels and all activities.

The Negative Influence:

In India every common man is so comfort freak that he expects everything to happen within no time and without much physical efforts. For such impatient Indians, standing in queue in front of ATMs is really a life-taking task.

Majority of the rural public are either semi-literates or literates and as such it would definitely take some time for them to understand the dizziness of digital transactions. Hence, they must be educated with respect to the noble intentions of the government through the Gram Panchayats and steps should be taken to give them access to exchange their old currency with new ones. The Government even would have spent lots of money to print new currency notes and should wait patiently till the resistance from the public gradually subsides and turnout to be a favourable nod of head. However, many analysts also claim that this new hunt can only fetch small fish into the net, leaving the big fish which have swallowed large volume of money and made their mouth black. The idea of demonetization is good but one has to understand the fact that Black money is not really Black currency in India. Rather, it is black investment in real estat, black gold and other assets in black. According to experts, only 4% of black money is in the form of black currency. However, the move of demonetization is deemed to curb the black circulation of money in the hands of many.

Small farmers, sellers, merchants, daily wage labourers and traders are suffering due to lack of preparation, and foresight. There is also a need to pile up enough 100 rupee notes and other smaller denomination notes in the market before taking this step. People are facing problems because the limit of withdrawal has not been kept at a higher level. If this would have been kept at a higher level, there were chances that the recycling of black money might begin. The ideal money in circulation has to come the banking channels. It is also being said that what is being attempted in replacement of currency and not demonetization itself which was unnecessary. This is a terrible setback for the international standing of the Indian economy. At this time, the economy is struggling with slowdown. There is demand sluggishness in the economy leading to practically no private sector investment and stagnant industrial growth. If we look at the farm sector, this is the harvest time. Farmers generally deal in cash and India is also largely a cash economy. The cash transaction in this economy are far more than the total number of electronic transaction done on a daily basis. In the tribal heartland of the country, the poor people through middlemen are getting their currencies exchanged for Rs 300 of Rs 400 because of lack of proper information which is hitting them.

Grocery and vegetable shop: almost every local grocery vendor in India accept cash only. So quite obviously people have to restrict their purchases to be low 500 rupee or else have get big bags to carry large volume of small currency.

Transportation: Common public whose travelling expenses exceed Rs 500 will definitely be in soup if they don't possess enough change to pay over the travelling expenses.

Truck transport: almost every business is some way or the other dependent on especially trucks. All drivers and middleman would prefer only on cash. Their day-to-day transaction may not be compatible to be dealt online.

Foreign tourist coming to India: the present decision of Government would seriously affect those foreign tourist who, by this time have exchanged their local currency of India. Since their cash reserve will be above the normal level, the decision of cancelling currency of large denominations would definitely prove to be fatal for such foreign tourists. This applies to NRI's as well who have returned to India recently and have got forex.

Daily wage workers: almost every industry has to deal with daily wage workers every day who are paid on a per day basis. Due to dearth of currency with lower denominations, these daily wage earners may have to suffer a lot with the delayed payment.

Hotels/Restaurants : the scenario of the day is that people have become so cash conscious and are unwilling to go to restaurants with a fear to lose their small notes.

Stock market: anyone buying / selling physical shares typically pays via cash. In normal scenarios, trading amount is always bigger in quantity and there is no alternative other than paying through lower denominations.

Conclusion:

Till now, all the policy makers and common public are swelling of the Indian economy with black money as its strength and sooner or later the reality will come into picture and common man will surely realize that any pain in the short run can ultimately give a greater gain in the long run. However, it can be said that this is a brave step and should be solicited by all.

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Impact of Demonetization on the Income, Savings and Investment pattern of Salaried Class

Babu K A²² and Dr. Giridhar K V²³

Abstract

Government of India announced demonetization of high value currencies of Rs.500 and 1000 on 8th November 2016 with an objective of avoiding the circulation of illegal currency, tracing the black money in the economy, curbing the corruption and many other objectives. Benefits of demonetization can be reaped only in the long run. But in the short run, this strong move of the government only acts as a hurdle by causing major cash crunch in the economy affecting the regular activities of various sectors of the economy and even the life of individuals especially, salaried professionals. Various sectors of the economy are majorly affected by this historical bold decision taken by the Government of India. Questions started to arise, such as, will this move of demonetization be effective if people can still create new black money even after demonetization of old currency? Will it increase the GDP of the country? Will this really curb the circulation of illegal money in future? What is its impact on the tax revenue of the country? etc. All these questions need to be answered in the future. Salaried professionals are one of such groups of economy who earn fixed amount of income and would be able to contribute to the larger part of national savings. This category of the people saves their earning in various patterns and also make wise decisions in the investment of their savings on various assets. In this backdrop, this paper makes an attempt to analyze the impact of demonetization on the savings and investment pattern of salaried professionals by comparing the data prior to and after demonetization period. The research paper is based on both primary secondary data.

Key-words: *Black money, Indian economy, salaried class, Income, savings, investment.*

Introduction

Demonetization is an act of withdrawing particular form of currency from circulation. It involves the issue of new currency or coins of same denomination or replacing old currency or coins with new currency or coins of different denominations totally to resolve the problems

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of circulation of black money in the economy and also to curb the circulation of illegal currency or coins in the country. India has amongst the highest level of currencies in circulation at 12.1 percent of GDP. The total value of old Rs.500 and Rs.1000 notes in the circulation was to the extent of Rs.14.2 trillion, which amounts to 85% of the total value of currency in circulation. This huge amount of currency in circulation is now forced to change into new currency of same denomination or different denomination. This process of demonetization and re-monetization has to pass through the formal banking channels to get legitimacy.

The demonetization is the move of the government to achieve three important objectives, such as curbing black money which is circulating in the economy, curbing corruption and avoiding circulation of illegal currency in the economy. The country has huge amount of black wealth created by people in the form of physical assets and only small portion of black wealth is in the form of cash, which is called black money. It is a very tough task for the government to eliminate this black money from the economy, because people have already found ways of recycling this and converting it into white money. On the day the government demonetized the highest value currencies from the economy, jewelry shops were reported to be open till 3 a.m, issuing backdated receipts for purchase of gold and other valuable metals. Nevertheless, the government of India is spending heavily on converting old currency into new to avoid this black money which in circulation. Rather government should take steps to trace out black wealth which is in the form of physical assets such as real estate, gold etc.

Total currency in circulation is Rs.17.5 lakh crore. Among this the worth of counterfeit currency in circulation is only Rs 400 crore according to RBI, which is very negligible. The government's objective of curbing the circulation of such currencies costs heavily in the form of cost of printing new currencies.

Objectives of the Study

Following are the main objectives with which the present study is carried out

- To assess the effect of demonetization on the economy
- To analyze the impact of demonetization on income, savings and investment pattern of salaried class in particular.

Research Methodology

The study is carried out by the use of both primary and secondary data.

Primary data: The primary data is collected by interviewing and having discussion with salaried class people working in both private and public sectors. The convenient sampling technique is adopted for collecting primary data from the respondents. No structured questionnaire is used to collect the data.

Secondary data: Secondary data is collected from various journals, newspapers and internet.

Theoretical Framework

Positive Effects of Demonetization on the economy

➤ **Increase in tax compliance of people**

The government policy of demonetization has increased the tax payers base and tax compliance of salaried class of the country as this move of the government has channelized all receipts and payments of money through bank accounts. Hence, this will reduce the quantum of black money in the economy, motivates people towards prompt payment of tax to the government and also increase the revenue of the government

➤ **Major contribution to the national savings of the country**

Since salaried employees cannot avoid the tax burden on their income and they do have much space for the creation of black money, they started investing major portions of their savings in various sectors of the economy in the form of investment in shares, bonds and also mutual funds, rather than just investing only on real estate as earlier to demonetization. This acts as a major contributor to the national savings of the country.

➤ **Purchasing power of the people increased**

As the demonetization fights against the black money which is rampantly circulating in the economy, it will reduce the money supply to a greater extent, as a result, the inflation prevailing in the country will automatically come down. By the decrease in the prices of food items and other essential products in the market, the purchasing power of money of the people will go up.

➤ **Ownership of homes will grow up**

As the effect of demonetization, the lending rates of banks on home loans have reduced considerably. This incentive encourages the salaried class to own their dream homes rather than depending on the rented houses.

Negative effects of Demonetization on the economy

- **Employees of real estate sector will have tough time**

Companies involved in real estate sector started firing their employees since their business has slumped phenomenally. Construction of apartments in metropolitan cities have come to a halt temporarily. This has resulted in firing of the employees working in real estate sector companies.

- **Employees of luxury product companies started feeling the heat**

Demonetization of high value currency notes of Rs.500 and Rs. 1,000 will adversely impact the workers working in companies producing and supplying high-end consumer products such as luxury cars, high-end mobile phones etc.

- **Reduced interest rates on bank deposits**

After demonetization of high value currencies, people started depositing their old currencies in order to exchange them with the new currencies. This increased the inflow of currencies into bank accounts which resulted in the reduction of interest rates on various deposits of banks including fixed deposits. The rate of interest on FDs is falling even below the interest on savings account in some banks. Putting the money in bank FDs at this point of time is equivalent to putting money under the pillow.

- **Economy will be sluggish**

Economic activities in the country have reduced drastically due to liquidity crunch. Industries faced the shortage of cash to make the payment of salaries and wages to employees and to make payments to suppliers of materials etc.

- **Consumer spending goes down**

Soon after the demonetization decision taken by the government, people faced the liquidity problem and their spending have reduced drastically. People faced tough times to buy even their necessary things.

Impact of demonetization on salaried class

Demonetization is going to be one of the memorable experience that every citizen of the country has experienced. It has affected the life of the common people by withdrawing nearly 86% of the currency which was in circulation without replacing it immediately. After the demonetization, there was a huge gap in the composition of the currency. The economy had no alternate currency between Rs.100 and Rs. 2,000. This high value currency utility was a challenge for the people who were depending on cash for any purchase.

The main source of income of the salaried class people is the salary they get from their employer. In addition to salary, they also receive incomes in the form of agricultural income, interest on various deposits, income from shares, mutual funds and rent from house property etc.

From the survey it is found that the salaried class had depended on the Banks and post offices fixed deposits as the source of their investment for maximizing their wealth, as this investment was felt safe and secure. The income tax policy of the government is charging heavy rates of taxes on the interest earned on the fixed deposits. Hence slowly salaried class people had also started investing in real estate properties of small amounts and also in gold and other valuable metals. But post demonetization, most of the sellers of real estate properties are not accepting the total price of the property in the form of bank transfer or in cheques. Rather they expect the buyers to make payment of part of the property price in cash. Salaried professionals are normally not affordable to buy such costly properties out of their savings alone. They also depend on the bank loans to purchase such properties. Hence they started moving slowly from real estate investment towards the investment in shares, gold and mutual funds.

Conclusion

Demonetization is like sucking maximum portion of the blood from someone's body and later on putting new blood slowly into the body which neither kills the person nor keeps the person active and healthy. In the same manner the demonetization has taken back the major portion of the currency from circulation, which is severely hampering the economic activities of the country and has caused the economic slowdown of the country in the form of reduction in GDP.

Since salaried class people are more tax compliant and majority of them receive their salary through bank accounts after the TDS, there is no much impact of demonetization on them. The pattern of their income and savings are not much affected by the demonetization, but there is small change on their investment pattern after the demonetization. Salaried class people strive hard to own their dream house out of their savings from salary and also with the help of bank loan. Since the investment of real estate is still demanding payment in cash on purchases, this educated class is moving from the dream of owning the house towards investing their small savings in mutual funds and shares. Salaried class in the country are the people who make honest payment of tax to the treasury of the government as they are most tax compliant.

Hence the government should revise the tax slabs and reduce the rates of taxes in the upcoming budget, to incentivize those who are still evading tax on other sources of income.

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Impact of Demonetization in India

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Abstract

The government of India recently took a bold step to demonetize Rs 500 and Rs 1000 currency, which means that the legal tender of currency units is declared invalid from the specified date. Demonetization of currency means discontinuity of the said currency from

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circulation and replacing it with a new currency. Most of the people hailed the government's strong decision, while poor were shocked by the move. The overnight decision changed the life of many as black money holders were worried about the pile of cash they were sitting on. Many poor daily wage workers were left with no job and income as owners were unable to pay their daily wage. Here an attempt has been made to discuss about demonetization, its meaning, reasons for demonetization and its major impacts on different sectors in India.

Keywords: Demonetization, Indian Economy, Banking Sector and Currency

Introduction

Demonetization is a process by which a series of currency will not be legal tender. The series of currency will not be acceptable as valid currency. It is the act of stripping a currency unit of its status as legal. It occurs whenever there is a change of national currency the current form or forms of money is pulled from circulation and retired, often to be replaced with new currency or notes or coins. Sometimes, a country completely replaces the old currency with new currency. Demonetization leads to a change of national currency: The accepted unit of legal tender is withdrawn from financial circulation and usually replaced with new notes or coins. Sometimes, a country completely replaces the old currency with new currency.

Definition

Demonetization is the process of withdrawing the legal status of a currency unit in a country thereby rendering it null and void as legal tender. According to Merriam Webster Dictionary, the term 'demonetization' has its root word from verb 'demonetize'. It is a transitive verb which has various meanings as followed:

1. To stop using (a metal) as a monetary standard
2. To deprive of value for official payment

Demonetization has its origin in French 'demonetizer' de+ Latin 'moneta' coin. It was first used in 19th Century, i.e. 1852

Reasons for Demonetization

There are many reasons why countries demonetize their currency despite it being a temporary national crisis:

- To control terrorism activities
- To Eliminate black money and fake money
- To control tax evasion, financial crime, terrorism and illegal transactions,
- To control inflation and money hoarding
- To control a cash-dependent economy
- To introduce a digital, cashless and controlled economy
- To encourage trade and commerce in global markets
- To encourage consumerism.

Demonetization in India

Demonetization has now taken place thrice in the history of Indian till date. The Indian government had demonetized bank notes for the first time in 1946 and thereafter in 1978. On both occasions the stated objective was to curb black money, illegal money laundering and tax evasion.

In 1946, the British government had wanted a negative impact of demonetization to jeopardize Indian trade since it was generating profits and supplying the Allies with resources in World War II. In 1978, the coalition government headed by Sri Morarji Desai expunged paper currency of 1000, 5000 and 10,000 rupees, again with the goal of restricting black money and curbing the production of duplicate money.

In a dramatic act of rash impetuosity on 8th November 2016, the Prime Minister of India Shri Narendra Modi, in a sudden address on national television, announced the immediate demonetization of all Rs. 500 and Rs. 1,000 bank notes of Indian currency to be expunged almost overnight.

In the announcement he stated that the use of all Rs. 500 and Rs. 1000 banknotes of the old currency would be invalid past midnight, and informed that new Rs. 500 and Rs. 2000 banknotes of the new currency series would be issued in exchange for the old currency notes

within December 30, 2016. The Union Government declared that this would fulfil their objective of curtailing counterfeit and black economy and prohibit the funding of illegal activity and terrorism. The Prime Minister also insisted that this would encourage transparent and limited spending in a cashless economy which would implement his vision of a digital India.

The Reserve Bank of India specified the deadline of 30th December 2016 to the people to deposit the demonetized banknotes in their respective bank accounts which would be linked to the PAN card or Aadhar Card numbers. The banknotes could also be exchanged over the counter of bank branches after providing identity proof and completing KYC formalities up to several varied limits as follows:

- Initially, the currency exchange limit was fixed at Rs.4,000 per person from 8th to 13th November, 2016.
- This currency exchange limit was increased to Rs.4,500 per person from 14th to 17th November, 2016.
- The currency exchange limit was reduced to Rs.2,000 per person from 18th November, 2016.
- All currency exchange of banknotes was abruptly stopped from 25th November 2016.
- International airports were directed to enable exchange of currency notes amounting to a total value of Rs.5,000 for foreign tourists and Indian passengers travelling out of the country.

Major Impacts of Demonetization

- **Black Money:** People having black money generally keep their black money in highest denomination currency notes. This bold step would abolish black money from economy as the black money holders will not be in a position to deposit the same in the banks
- **Strengthen the Indian Banking System:** It will automatically lead to more amount being deposited in saving and current accounts cash laying out of economy flow is now coming into circulation. This turn will enhance the liquidity position of the banks, which can be utilized further for further lending purposes.

- **Control on Terror Funding:** In Pre-Demonetization period, there were full of terror activities happened in Jammu and Kashmir state with the help of Fake Indian Currency Notes network. After demonetization, terror activities were completely controlled.
- **Higher Tax Collection:** This led to higher tax collection as business men are depositing cash lying with them as current year income with advance tax. Defaulters of bank, property tax, electricity bills and telecom bills are clearing their long pending bills thus utilizing their old currency notes.
- **Promotion of Digital Payments:** Demonetization promoted all the people to use and adopt digital payments, virtual wallets such as Paytm, Ola money etc. It is more impacted on all walks of every Indian.
- **Price Cut in Real Estate:** As we all know the hype in real estate prices is because of the black money in the market. After demonetization almost all the black money would get out of circulation from this sector. Eventually the sky touching prices of properties will come down to reach the common man.
- **Bank Rate Cut:** Larger money in circulation results in better the conditions of banks. Now banks no longer for a considerable time from now face liquidity issues. That will result into lower bank rates.
- **Reduction in illegal activity:** Banning high-value currency will halt illegal activity as the cash provided for such activities has no value now. Black money is usually used to fund the illegal activity, terrorism and money laundering.

Conclusion

Demonetization is a generation's memorable experiences and it is going to be one of the most economic milestone of our Indian Economy. The primary effect of demonetization was panic. In a country with a high percentage of rural population it was not easy to access ATMs or banks as there were very few banks in the rural areas. Due to the ill-planned scheme, the new notes were not printed in adequate numbers and there was a shortage of currency. People died of stress and ailment while standing in long queues. Banks had poor infrastructure and inadequate cash supply to deal with the demand. ATMs had to be restored and modified as the new notes had different calibrations and thickness and could not be dispensed by the ATMs.

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**Abstract**

This research relevant to demonetization on Indian banking sector, the government to demonetize rs.500 and rs.1000 notes by replacing them with new Rs.500 and Rs.2000 notes has taken the country with surprise. The government is to tackle the menace of black money, corruption, terror funding and fake currency. Its effect on Indian banking sector is significant as bank is a center for channeling the legal tender money to all needs of the society. The biggest

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beneficiaries of demonetization are banks. It made the banks to accept the deposits without any cost of promotion and drastically increased liquidity position of the banks. This study is purely based on secondary data, which is collected from news papers, magazines, websites from internet, some useful books related to topic etc.

I. Introduction

The banking industry today is in a state of flux, with multiple technology, regulatory, and demographic factors cutting across the length and breadth of the value chain. These factors are impacting the way banks conduct their business, as the traditional banking methods are not enough to meet increasing customer expectations and improve profitability. Demonetization is the act of changing the existing currency in another form. The old units should be retired and replaced by new currency. In other words demonetization means either introducing new notes or coins of the same currency or fully replacing the old currency with new currency. There is a one important thing exist on economics.

II. Review of Literature

Vijay and Shiva (2016) examined demonetization and its complete financial inclusion. They felt that the rewards of demonetization are much encouraging and the demonetization is in the long-term interest of the country. They expressed that it had given temporary pain but it taught financial lessons. It influenced banking industries to do considerably investment on digitalization of banking services.

Manpreet Kaur (2017) conducted a study on demonetization and impact on Cashless Payment System. He said that the cashless system in the economy has many fruitful benefits less time-consuming, less cost, paper less transaction etc. and he expected that the future transaction system in all the sectors is cashless transaction system.

III. Objectives of Study

- To understand effects of demonetization on Indian banking Sector.
- To find out positive and negative results of post demonetization on Bank operations.
- To know the impact of note ban decision on the Indian economy.
- All the bank accounts are tied up to one PAN (Permanent Account Number).

IV. Research Methodology

The study is based on Secondary Sources of data. It includes available published literatures such as books, journals, newspapers and relevant government websites. The study tries to light at the extent of demonetization influence on banking sector.

IV. Aspects to know the Effectiveness of Demonetization

- ❖ **Impact of demonetization on Indian Economy:-** The demonetization somehow reduced consumption activity in economy of India. But it increased the money in banks. At the time of demonetization the consumption had reduced and the market become slowdown, but the increase in the deposition in the bank would be better for economy in future.
- ❖ **Impact on Terror Funding:-** Fake Indian Currency Notes (FICN) network will be dismantled by the demonetisation measures. taking out 500 and 1000 rupee notes out of circulation will have a lasting impact on the syndicates producing FICN's, thus affecting the funding of terror networks in Jammu and Kashmir, North-eastern states and Naxalite hit states.
- ❖ **Impact on 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.
- ❖ **Transition issues for banking sector:-** The banks too might have a transition issue to deal with. Banks would have a model of the fraction of deposits that they can safely lend without an excessive risk of withdrawal of the amount. This is important since, while banks can borrow money from the call money market, the costs of such borrowings can be large.
- ❖ **Credibility of Banking Industry:-** As demonetization has given unexpected funds at low cost. Now the responsibility of the banking officials working at any levels to take care of Investment, Safety & Security, Keep away technology related risks.
- ❖ **Impact on Deposits:-** Demonetization has increased the deposits in Banks. Unaccounted money in the form of Rs.500 and Rs.1000 were flowing to the Banks and

the sizes of deposits have been increased. It helped the banks to grab the deposits and increase their deposits.

- ❖ **Increased number of Customers:-** Demonetization has influenced public to come and execute transactions with banks. It made even a non income group people to visit bank and have an account. It increased number of account holders in banks while increasing deposit corpus.

Conclusion

Demonetization has good and adverse effects on banking Sector to maintain profitability and assets management, and Demonetization is a tool used by central government to fight against corruption and black money. In the same path, it influenced and brought changes in all the corner of the economy. Banks are major institutions affected by demonetization.

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A Study on Risks and Remedies of Small Scale Industrial Units

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Abstract

This study about to examine of risks which are faced by small scale units, than it's often a result of poor planning rather than economic conditions. It is a common rule of thumb that the entrepreneur should have access to a sum of money at least equal to the projected revenue for the first year of business in addition to his anticipated expenses. Small scale units in India face a number of problems - absence of adequate and timely banking finance, non-availability

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of suitable technology, ineffective marketing due to limited resources and non availability of skilled manpower.

1. Introduction

At the time of Independence, the industrial base of the economy was very small and the industries were beset with many problems such as shortage of raw materials, deficiency of capital, poor industrial relations, etc. The government also realised that the small scale industries have many distinct advantages over large and medium scale industries. Hence, the government - both centre and states – have formulated and implemented a number of policies and programmes for the benefit of small scale industrial units.

2. Objectives of the Study

- To know the problems and solutions related to small scale industrial units
- To examine the policies and practices relating to small scale industrial units.
- To determine whether lack of managerial skills constitute a major challenge in the Performance of SSIs.
- To offer suggestions for improving the working of DICs and SSIs.

3. An Overview of Literature

Dr. M.S.Vasu, Dr. K. Jayachandra Growth and Development of SSIs in India; Prospects & Problems. This paper discussed about the problems faced by SSIs in India, Problems in general were listed out, but not to a particular State or Region.

Dr. Navneeta Singh reviews in his article entitled “Industrial Sickness and Causes & Remedies”, sickness is an organic process, the process of sickness may take several years, but the seeds of sickness can be visualized at a very early stage in the life cycle of an industrial unit.

4. Research Methodology

Both primary and secondary data are used in the study. The study is empirical in nature as it is based on data collected with the help of schedule.

5. Risks of Related Small Scale Industries

The problems of SSIs are multi dimensional in the liberalized environment, which include delay in implementation of the project, inadequate availability of finance and credit, expensive mode of communication, marketing problems, cheap and low quality products, delay in payment, technological obsolescence, imperfect knowledge of market condition, and lack of infrastructure

facilities, deficient managerial and technical skills, etc.

5.1) Management Problems: Lack of trained manpower and management skills also constitute a major challenge to the survival of SSI Units in karnataka. Inefficiency in overall business management and poor record keeping is also a major feature of most SSI Units; technical problems/competence and lack of essential and required expertise in production, procurement, maintenance, marketing and finances have always led to funds misapplication, wrong and costly decision making.

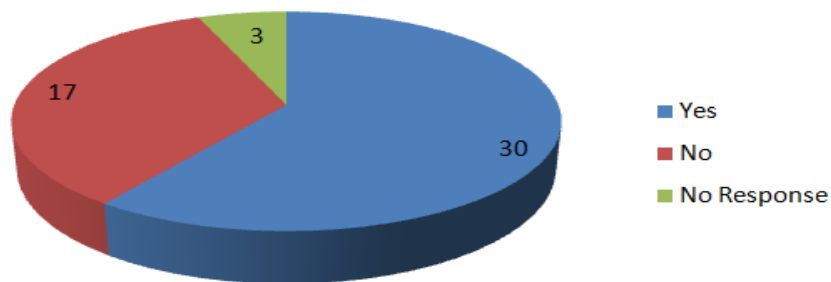
5.2) Strategic Planning Problems: Small scale industrial units often do not carry out proper strategic planning in their operations. It's one problem of SSI Units is lack of strategic planning. Sound planning is a necessary input to a sound decision-making.

5.3) Problems For Raw Material: The major problem that the micro and small enterprises have to content with is the procurement of raw material. The problem of raw material has assumed the shape of (i) an absolute scarcity, (ii) a poor quality of raw materials, and (iii) a high cost.

AProblems Faced for Procurement of Raw Material

Yes	30
No	17
No Response	03
Total	50

Problemss For Raw Material



This diagram shows 50 out of 17 of the respondents said that they did not face problems in getting raw material and 30 of them said that they face problems in this respect. And remain 3 respondents are not give any Response.

5.4) Absence of Organised Marketing:One major problem of small- scale industries is marketing. These units often do not possess any marketing organization and consequently their products compare unfavourably with the quality of the products of large-scale industries. Therefore they suffer from a competitive disadvantage vis a-vis large-scale units. In the absence of organized marketing, their products compare unfavourably with the quality of the product of large- scale units. They also fail to get adequate information about consumer's choice, taste and preferences of the type of product. The above problems do not allow them to stay in the market.

5.5) Inadequate Credit Assistance:Inadequate and timely supply of credit facilities is an important problem faced by small-scale industries. This is partly due to scarcity of capital and partly due to weak creditworthiness of the small units in the country. Lack of finance is the main obstacle for the development of small-scale industries. The financial problem of small industries is a part of the wider problem of capital scarcity in the economy as a whole and it is partly due to the peculiarity of small industry organization.

5.6) Other Problems:Besides the above problems, small-scale units have been of constrained by a number of other problems also. They include poor project planning, managerial inadequacies, old and orthodox designs, high degree of obsolescence, transportation problems,

lack of power, and lack of adequate warehousing, lack of information. Due to all these problems the development of small-scale industries could not reach a prestigious stage.

6. Remedies and Suggestions for Improvement of SSI Units

6.1) Training and development, awareness programs for overcome to Management

Problems:- There must be conduction of training and development programs by the SSI Units ministry. The currently running programs are not so effective and sufficient. One of the important reasons for slow intake in the utilization of schemes is the lack of knowledge about schemes and their likely benefits. The current knowledge dissemination system is limited in its outreach. There is a need to develop a better communication strategy and use of new age media tools than it's overcome a Management problems.

6.2) Overcome to Problems relevant of Raw material:- Keeping in view the problem of raw material the Government made provisions for making raw material available to Small Scale industrial units. And also be the supply of raw materials with qualitable & quantity in time as pregnable Price.

6.3) Overcome to Strategic Planning Problems through a proper research & development:-

There should proper research and development in respect of innovative method of production And service rendering. The innovative products will help to Frame a well and good strategic Planning relevant to small scale industrial Units.

6.4) Overcome to marketing problems of SSI Units:- There should be a Central All India Marketing Federation with its branches in the State to assign major responsibility for marketing of products of such small scale industrial units, It's a Considering the fact that poverty alleviation programme and other development activities of the state would make the large masses of the country, mainly in rural & Backward areas , conscious of better living standards and this would ultimately create huge demand for the consumer goods for mass consumption, the promotion and development of small scale industries holds a key of prosperity and higher the living standard in rural and Backward areas in Karnataka.

6.5) Government guaranteeing of long-term loans to SSI Units:-State government should guarantee long term loans to SSI Units in Karnataka since they lack the necessary collateral to access such funds from financial institutions.

6.6) Other Recommendation and Suggestions:-This Study given some of the suggestion for overcomes risks of small scale units are as follows,

- ◆ Encouraging Industry association to establish quality counselling and common testing facilities.
- ◆ Developing infrastructural facilities.
- ◆ Frame a some of the Policies in favour of small scale industries include raising the exemption for a provision of Tax, and providing credit linked capital subsidy, raising the limit for composite loans.

Conclusion

The main purpose of study is how the entrepreneurs managed the Small Scale Industrial units. What are the various problems faced by these enterprises. It also showed how the role of SSI Units helped in economic restructuring and development of India.

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Impact of demonetization on Indian Economy - A micro level analysis

Prof. Jaya Naik²⁹ and Dr. Anilkumar³⁰

Abstract:

Indian government adopted demonetization on 08 November 2016 to tackle with black money and make India a cashless digital economy. As per the yearly report of Reserve Bank of India of 31 March 2016 that total currency notes in circulation is 16.42 lac crore of old Rs. 500 and Rs.1000 banknotes. As per the report of RBI dated on 14-12-2016, the total amount of old notes of value of Rs. 12.44 lac crore has been deposited by the customers till 10-12-2016. Banks started accepting deposits from 10 November but within a period of 15 days approximately half money has been received by the banks.

India is the second most populated country in the world with nearly a fifth of the world's population. Out of the total 121 crore Indians of Indian population, 83.3 crore of population live in rural areas while 37.7 crore stay in urban areas, said the Census of India 2011. As a rural populated country most of the rural population are engaged in agricultural activities as most of the population of rural areas depends on agriculture. Agriculture forms the backbone of the country's economy. The agricultural sector like forestry, logging and fishing accounted for 17% of the GDP contributes most to the overall economic development of India

Key words: *Demonetization, Cashless Transactions, , tax evasion, Cash Crunch, Digital Economy.*

I. Introduction:

The 'demon' in demonetization is in the beginning. Any Government withdraws the legal tender rights of any denomination of currency, it is known as demonetization. On

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November 8, Indian Prime Minister Mr. Narandar Modi announced in a broadcast to the nation that Rs. 500 and Rs. 1000 currency notes would no longer be recognized legally as currency. The total currency in circulation in India was Rs. 16.42 lac crore (US\$240 billion) of Rs. 1000 and Rs. 500 notes. The government believe that this demonetization is required for the four main reasons first reason is for stopping the funding of terrorism, second reason for facing the problem of fake Currency, Third reason for making the black money worthless and fourth reason for reducing the corruption, etc. The need for the government to keep the move a secret because the tax evaders would not be aware before the announcement of demonetization took place. For Modi, this is work in progress. In his speech to the nation, he highlights what his government has done so far. Narandar Modi has prompted it will take 50 days for people to adjust to the change. This announcement appears to be the most important change made by the Narandar Modi's government to date, says Girish Vanvari, partner and head KPMG in India. Demonetization is the most important and necessary when there is a change of national currency. The old unit of currency replaced with new currency. Demonetization is the process where government declares the currently running currency notes illegal to be tender after the declaration is made. There are both pros and cons of demonetization in the Indian economy. The reasons for demonetization are to control counterfeit notes that could be contributing to terrorism, and to undermine or eliminate the "black economy". There are some potentially ways in which the pre-demonetization money supply will stand altered".

II.Objectives of the Study:

The present study aims at examining the people impact on demonetization- a macro level analysis. For this purpose following objectives have been outlined.

- To study the impact of demonetization on common person of India
- To study the impact of demonetization on economy of India.

III. Research Methodology:

The paper is based on secondary data. The data has been collected from internet, articles newspapers etc. Graph and percentile method has been used to analyze the data. The following

analytical techniques will be employed and the present study also tries to assess the impact of people impact on demonetization- a macro level.

IV. Limitations of the Study:

The study analyses the present study aims at examining the people impact on demonetization- a macro level perspective. The present study suffers from the following limitation. The conclusions drawn from the study have limited applications and they may not be generalized, the limits are also set by the availability of data and the personal capacity of the researcher.

V. Review of Literature:

Mukhrjee et al. (November 2016) [4].studied about the impact of the present government move for demonetization on the credit availability, government finance, spending and levels of various activities. The researchers stated that in a very short period there would be more serious affect on persons earning income in cash as well as spending in cash while impact will be up to a lesser extent on those earnings in non-cash form but spending in cash. Each sector backing demand by cash along with the real sector especially the unorganized one will much adversely effected in very short run time. In case of short term effect having complete replacement, an immense strengthening of informal sector credit market would be seen in the rural market and there would be adverse affect on construction sector.

Mohd. (November 2016) [5]. studied about the significance as well as challenges of demonetization of currency notes. Secondary data was used for this study collected from various newspapers as well as websites. The researcher concluded through the study made that no doubt this move was going to disturb the routine life of ‘Aam Aadmi’ (common man of India) influencing largely the unorganized sector including organized sector up to a limited extent but the real consequences of move will have bigger implications on the Indian economy as a whole in the long run. Sunita (September 2014) [6] in her research study attempted to get insight about the reasons as well as measures adopted by the government on demonetization that was implemented in Indian context. It was a conceptual study based on secondary sources. She concluded that the enhancing trade deficit, 1965’s war between India and Pakistan, gulf war, political as well as economic stability, dwindling foreign exchange reserves, withdrawn

of FII's (Foreign Institutional Investors) and strengthen of dollar were the key reasons behind the move for demonetization by the government in India and the measures adopted by the government included imposition of quantitative restrictions, provision for export subsidies, establishment of dual exchange regime, adoption of floating exchange rate system, increase in FII's limit, enhancement of ceiling up to a limited time frame, use of some proportion of borrowed funds overseas for the domestic expenditure, withdrawn of rebooking of forward contracts post cancellation and reduction of NOOPL (Net Overnight Open Position Limit). The literature review has revealed certain gap which indicates future research Entitled " people impact on demonetization- a macro level perspective."

V. Reasons of Demonetization According to The Reserve Bank of India, there were mainly three reasons to take the said initiatives which are like:

- To address black money in the economy.
- To control the cash circulation in the country relevant to corruption.
- To remove fake currency and dodgy funds used by terror groups to fund terrorism in India

VI. Effects of Demonetization on Indian Economy: Macro Level Perspectives.

Demonetization had created various impacts on the economy. Most of the sectors where transactions are done on cash basis were affected highly. Somewhere it was boom where in other sectors temporary slowdown was found. For the research paper researcher has considered various sectors where there has been vital impact according to researcher.

- **Temporary Liquidity shortage:** It was the time when people were standing in long queue to exchange the money. The highly used denomination currency is Rs.500. People were not getting that money currency. There was a shortage of the currency which was clearly observed.
- **Time of Currency Shortage:** reports suggested that all printing presses could print 2000 million units of RS 500 notes by the end of year. Nearly 16000 million Rs 500 notes were in circulation as on end March 2016. Some portions of this were bridged by the new Rs 2000 notes. Towards end of March approximately 10000 million units

were printed and replaced. All these suggested that currency crunch was going to be continued in our economy for the next four months.

- **Loss for population using currency:** Most of the poor section of society uses cash for their livelihood. They depend most of the time on cash basis transactions as such they receive wages in daily basis in cash. Due to shortage of cash it was assumed that companies will try to lower down cash expenses and may reduce their labor cost. Because of shortage of cash poor section of society including labors and workers will not get enough wage and payment.
- **Consumption affected:** Consumption was adversely affected because of the liquidity problems and because of consumption the entire cycle was disturbed temporarily.
- **Predicted Loss of Growth:** India wants to be fastest growing economy but because of liquidity position there was a doubt on growth position of India. Because of liquidity crisis GDP and income figures also were at risk.
- **Effect on bank deposits and interest rate:** For short run deposits with banks were hiked as people deposited their money to convert their old currency into new one but once when the new currency supply in the economy was full-fledged once again people had withdrawn their money from the banks because it was the money they deposited to convert in to new currency. This was the amount deposited by people which they were using for liquidity not for investment. Interest rates were predicted to be reduced only for short to medium run but not for long run.
- **Effect on black money:** The problem of black money had been addressed but only to limited extent because only few portion of black money is held in cash and rest other portion of black money is held in the assets and properties. The extent of addressing black money depended on the amount of black money held in the form of cash. However this measure had created huge awareness among the public and citizens of the country to address the issue of black money.
- **Effect on fake currencies:** The major effect of this measure had been on fake currency as its circulation has been evaluated after this exercise.

VII. Concluding Remark:

Demonetization is considered with some advantages and disadvantages in various sectors in short run but in long run it definitely will have positive impact in controlling black money and fake money. This move will have major impact on the parallel economy but sudden announcement and failure to prepare in advance has created temporary chaos and discomfort among the general public. Apart from positive benefits it created some inconvenience to poor sections of the society. In short run also we could easily identify its impact on the economy, from the above discussion it is clear that the decision taken will have far reaching impact on the economy.

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Effects of demonetization on society – An overview

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Abstract

*This paper spurs of demonetization effects on industries, business, common man and other sections of the society. The impact of this decision will be for a very short time. And as things smooth and new notes get into circulation, businesses will be back as usual. However, business accepting cash currencies will directly suffer especially **Daily wage workers. Grocery and vegetable shops, Transportation, Hotels/Restaurants etc.** The Government and RBI will take necessary steps to come out current business conditions and financial status of several sectors.*

Key words: Businessman, Currency, Circulation, Demonetization, Transportation.

Introduction:

When a currency notes of a particular denomination ceases to be a legal tender it is termed as demonetization or when any country withdraws their circulating currency in the economy of any demonetization and introduced new currency notes in place of old currency is called demonetization. success or failure of this action is known only after study of the results.

Our Prime Minster Narendra Modi's decision to scrap high value notes of Rs. 500 and Rs.1,000 has created a shortage of cash in the system, leading to a lot of discomfort for the general public and business. Also, there is a shortage of newly printed Rs. 500 and Rs. 2,000 notes, the situation has worsened. The move has also led to a shortage of lower denomination notes such as Rs. 100 and Rs. 50 that are still legal tender, as people have taken to conserving whatever cash they have in hand.

The term demonetization has become a house hold name since the government pulled the old Rs. 500 and Rs.1,000 notes out of circulation. The World Bank chief Jim Yong Ki says "The reforms undertaken by Prime Minister Narendra Modi have been significant and the results would be reflected in the mid and long-term growth figures"

"The reform process has been significant. We think that certainly in the medium and long term, the growth will reflect the seriousness of Prime Minister Modi's government in making those reforms" Even though many people argued in favour of demonetization, but it

would be takes longtime to give result, few countries (Nigeria, Ghana, Pakistan, Zimbabwe, North Korea etc.) but they don't received benefit which they expected.

Here I would like to summarize effects of demonetization on industries, business, common man & other sections of the society: Since we all are aware of the decision, let's understand the effects on various industries, business, common man and other sections of the society. Note that the impact of this decision will be for a very short time. And as things smooth and new notes get into circulation, businesses will be back as usual.

Any person, business accepting cash currencies will directly suffer especially poor. in fact, those who use their service i.e. **common man will suffer the most** for few days due to non-availability of lower denominations. However, this won't last longer as banks would be offering extended working hours in addition to working on Saturday and Sunday to ease common man's pain.

- 1. Daily wage workers:** Almost every industry has to deal with daily wage worker every day who are paid on a per day basis. So these worker's earnings will be impacted as contractor or whoever pays them may not have lower denominations available with them. Either workers will have to accept these notes or get paid in lower currencies or get paid at a later date.
- 2. Grocery and vegetable shops:** Almost every local grocery vendor in India accepts cash currencies. So naturally they won't be accepting these two currency notes. And this has been noticed right from day 1. No one is ready to accept the currencies except Rs. 100 and lower denominations. So anyone buying grocery will have to either buy them on credit or give small denominations.
- 3. Transportation:** We all use some form of transportation everyday mainly auto rickshaw, taxi, buses, cycle rickshaw. All these business will be hit for a day or two especially those who commute longer distances and payment amount is above Rs.500. So either commuter has to provide smaller denominations or else do not travel or look for some other alternative. Because no one will accept these two most used currency notes.

4. **Truck transport:** Almost every business is some way or the other dependent on transportation especially trucks. All drivers and middleman have preferred only cash. No credit card/online transfer etc. They will be impacted badly unless and until they are paid in lower denominations.
5. **Travelers in India:** The decision must have been severely impacted foreigners who might have done foreign exchange and converted their local currency into Indian rupee before coming to India or after landing. Since their exchange amount is high typically above Rs.10000, they might have been directly given Rs.500 notes for sure which won't be accepted anywhere. This applies to NRIs as well who have returned to India.
6. **Hotels/Restaurants:** These businesses will also suffer especially those who accept only cash currencies. No lower currencies mean no visit to hotel by the customer.
7. **Stock market:** Anyone buying/selling physical shares typically pays via cash. In normal scenarios, trading amount is always bigger in quantity and there is no alternative other than paying through lower denominations.
8. **Fruits and vegetables vendors or other doing similar businesses:** They all accept only cash, provided you are not buying from shopping mall and other places where multiple payment modes are accepted.
9. **Medical shops:** Medicines are lifelines for the patients. Non-availability of lower denominations or non-acceptance of 500 & 1000 currency notes will result in either medicines bought on credit/lower denominations or not bought at all due to the ban. Not everyone has 100 and .50 or lower currency notes in sufficient quantity.
10. **Hospitals:** This certainly apart from medical shops will be badly impacted. Patients who are already hospitalized or are under process of getting hospitalized must have done some form of arrangements for money before 08 Nov 2016. They would be badly suffering.
11. **Entertainment industry:** Anyone used to buy movie tickets at the counter won't be able to buy tickets if they do not have lower denominations especially multiplexes where ticket prices are high.
12. **Real estate:** This market will be the most badly impacted obviously due to black and white money which have been functional since years. Buyer normally pays certain % of money (black money) in cash to the builder/agents and remaining portion is paid via loan. So any deal of the house which was supposed to happen on 09 Nov, 2016 or even

after this date will suffer. Because the black money or brokerage paid to agents involve large sum and all paid in cash. So buyer will either have to re-decide on buying the house or home builder or agent will have to accept these banned notes at their own risk. Or buyer will have to arrange lower denominations and then pay.

- 13. Remote places:** India's remotest places still have no access to banking and its various services. For e.g. Northeast regions. People from such regions will suffer. To ensure smooth functioning, SBI has announced cash being airlifted from Calcutta to Northeast regions so that there is no shortage of. 100 notes. Two helpline numbers have been activated for the people from these regions.
- 14. E-Commerce industry:** Although e-commerce is growing at phenomenal rate in India, mode of payments used by Indians is largely cash on delivery. Because of this decision, their sales will slow down. So this will directly impact businesses of mobile phone companies, clothing's, and jewelry especially as they contribute to bigger chunk of online ecommerce market places.
- 15. Insurance industry:** Online transactions for buying insurance is on rise but still higher number of policies are sold offline. Since normal policy premiums are higher in amount, policies won't be sold offline by most of the companies. So those who are not ready to buy online will buy either at a later date or purchase using lower denominations.

There are numerous businesses such as travel agents, ticket booking agents & many others will take a hit by demonetization. It will take some time to recover their business conditions and financial status, if Central Government with RBI take various measures to overcome the problems, by observing, studding and analyzing conditions and prevailing situations.

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Demonetization and its Impact on Rural India – Issues and Challenges

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Abstract

Indian government adopted demonetization on 08 November 2016 to tackle with black money and make India a cashless digital economy. Its impact is felt by every Indian citizen. Demonetization affects the economy through the liquidity side. This paper focuses on the impact of demonetization on common persons of India and also impact of demonetization sectors on agricultural sector of rural India. Study shows that mixed Impact of demonetization on common persons and in agricultural sectors.

Key words: Demonetization, common person. Agricultural sectors, rural India, Issues and challenges

Introduction

On November 8, 2017 Indian Prime Minister Mr. Narendra Modi took a historic decision by announcing that the high-denomination notes then in circulation would cease to be legal tender. With demonetization effort 86% of India's currency was nullified that aimed to wash the stock of 'black market's cash supply' and counterfeit notes out of the economy and convert it into the licit, banked and taxable, part of the economy. To reduce the impact of sudden commercial collapse, a 50 day period ensued where the population could (ideally) exchange their canceled cash for newly designed 500 and 2,000 rupee notes or deposit them into bank accounts. This move is expected to cleanse the formal economic system and discard black money from the same. The reasons of it are as under:

- To tackle black money in the economy;
- To lower the cash circulation in the country which is directly related to corruption in our country;
- To eliminate fake currency and dodgy funds which have been used by terror groups to fund terrorism in India

2. Objectives

As with the evidence of Ayash Yousuf Shah (2017) following objectives has been set

- To study the impact of demonetization on common person of India
- To study the impact of demonetization on agricultural sector of rural India.

3. Research Methodology

The paper is based on secondary data. The data has been collected from internet, articles newspapers etc.

4. Impact of demonetization on common person of India.

Demonetization is a memorable experience. Its impact is felt by every Indian citizen. As the country says goodbye to the old Rs. 500 and Rs. 1,000 rupee notes and with restrictions on exchanging money and taxation on high amounts of deposits, Indian economy had faced through some serious churns. But how is this going to affect the common person of India in the short run as well as the long run. Initially, there was a huge hue and cry about the idea; people had to wait in really long queues just to withdraw the necessary money they needed. The public doubted prime minister's plan and revolted against the bad preparation they faced in this regard. The changes did invite a lot of trouble to the public in the beginning but it all seemed worth that, as far as the long-term effects were concerned. There was a limit to the per-capita withdrawal and that was a huge issue for many people, mainly because of their personal requirements which included marriage, health, property etc. In the process of curbing black money the innocent common people and poor had seemed most suffered like, those people who do not have access to post offices and banks had seemed panicking for exchanging notes. Those families who had weddings and other special occasions are depressed due to lack of money thousands of weddings have been cancelled which impacted the vendors who supply for those weddings. Also Many street vendors have loosed their business because do not want to part with cash or cannot make change. People have cut back spending because the banks are rationing cash. Many Daily wage workers are unable to find work. Also Demonetization has a direct impact on sectors dealing with cash—vendors, auto rickshaw owners, taxi drivers, daily wage earners and small traders. The Indian system mainly functions on cash, and so, less cash means disruption in the flow. Therefore, the government's step to curb black money and fake currency has hit hard to poor people the most. But as the time passed the things slowed down a bit. The queues in the banks shortened, ATMs were filled with money, new currency circulated and all these normalized the situation. Nevertheless, this change will have a huge impact on the economy. It will take some time for things to become normal again and for now, it is just a play of time till we get to know whether it was a really good decision or an overrated implication.

The demonetization of Indian currency has created numerous hardships to common person but in long way it has lot of advantages.

1. To the extent of penalties imposed by the Income Tax department on the illegal conversion of black money into white money, the revenue to the government will increase in the immediate future.
2. Unaccounted money held as cash which was not productive will become productive as it enters the legal system.
3. Funding of terrorist and other illegal activities will be curtailed as they generally are funded by black/counterfeit money.
4. To the extent the black money held by the political parties is flushed out, the elections in the near future will be clear and more transparent.
5. With huge cash at the disposal of the banks, the borrowing of money will get cheaper providing impetus to economic growth.
6. Government can avail finances at lower rates and speed up the infrastructural spending creating huge job opportunities.

So far, it can be said that this is a historical step and must be supported by everyone. We should look at the bigger picture which will definitely fetch results in the future. This is what the whole country has been asking for a long time which has finally happened.

5. The impact of demonetization on agricultural sector and farmers of rural India:

Agriculture plays an important role in the Indian economy. Over 70 % of the rural households depend on agriculture. Agriculture is the backbone of Indian economy as it contributes about 17% to the total GDP and provides employment to over 60% of the population. It also provides raw materials to leading industries such as cotton textiles and sugar industries. The number of various agricultural commodities like tea, coffee, spices and tobacco constitutes our main items of exports. This amounts to almost 15% of India's total exports. Demonetization has affected every Indian, but it has hit the agricultural sector badly. Agriculture in India accounts for most of the workforce. Farmers, who are the backbone of our economy, were severely affected by the note demonetization of 8 November 2016. Agriculture is impacted through the input-output channels as well as price and output feedback effects. Farmers suffered a setback due to nationwide cash shortage and a fall in the demand for vegetables in wholesale markets. Farmers were not able to purchase inputs like seeds from

market. They were using old seeds from the last year harvest and not purchasing new quality seeds from market. The consumers of rural farmer is not as advance as the urban middle class, which can be easily managed with a very little amount of cash. The problem of the demonetization is largely associated with the rural areas of the country have lesser number of banks and ATMs compared to the urban areas and semi-urban areas. The problem was not the inaccessibility of the banks and ATMs, but the limit on cash which can be withdrawn. A farmer can take a day out from his busy schedule and manage to go to bank and get the cash back, however the limit on the amount withdrawal forces him to do that again and again exhaustive. However, the limit has been exceeded than before and government is taking other necessary formalities which would ensure that the farmer does not have to commit suicide. Besides those negative effects of demonetization there is also hope of every Indian farmer upon demonetization that this historical step will concrete our economy and also fruitful for our country in future.

The various effect of the Demonetization would be very positive for farmers are:

1. With plentiful money, the government becomes able to complete the incomplete irrigation projects so that more land comes under irrigation and two crops instead of one crop in a season can be taken by farmers.
2. The interest rates of banks started falling which could reduce the capital cost and farmers can now go for farm mechanization.
3. Government can build cold storage chain thereby minimize the wastage.
4. The quality of fertilizers will improve in that the nutrients contents will not be depreciated.
5. The Government can conclude the pending electricity generating projects so that the farmers who are suffering by lack of proper electricity will get more electricity so that he can run their drip irrigation system and save water.
6. The national portal made for farmers of the country will be more effective as the farmers will have wider market instead of local and District mandies. They will get more prices for their production with payment directly in their bank accounts.
7. Farming becomes more viable and there will be reverse migration to villages from cities. The smart phone holder children of farmers will not now shy from working on farm in future.

6. The Short-Term Vs. The Longer-Term Implications

6.1 The Short-term Impacts:

There will be a disruption in the current liquidity situation as households are likely to get affected by the note exchange terms laid by the government. Though clarity is unfolding on this, commodity transactions and general cash market transactions are likely to feel an immediate impact. It is important to note that a significant percentage of the Indian workforce is employed in this sector, which is likely to be affected by immediate liquidity issues. Overall, negative impact on disposable income is expected along with likely disruption in the consumption patterns of the general populace. It is estimated that there will be a negative GDP impact in the current quarter as consumption gets a shock in the immediate term.

6.2 The Longer-term Implications:

This essentially represents a change in regime for the real and financial economy. Domestically, there could be some confusion as the effect will be disproportionately felt by the lower and upper income classes. Internationally, the government is likely to get thumbs up for the move and more countries could potentially see this as a viable option to curb black money and stem illegal financial activity. Such an action achieves larger significance for a globally connected India as it shows boldness in tackling an issue which has remained a thorn in the growth success story of this generation.

7. Conclusion

If the money disappears, as some hoarders would not like to be seen with their cash pile, the economy will not benefit. On the other hand if the money finds its way in the economy it could have a meaningful impact. The impact of demonetization was felt more in the social sector and the worst affected was also the poor and the common people. Salaried class is not still able to withdraw their salaries from the banks and ATMs as a result of cash deficit. It is clearly evident that India is moving towards cash less economy. This will curb the black money to a great extent but educating the masses on the mobile based money transaction is a huge challenge.

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Demonetisation and Its Impact on Economy and Socio - Cultural Sector in India

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Abstract

The Government had on November 8, 2016 announced that existing Rs.500 and Rs. 1000 bank notes, corresponding to 86 % of India's currency in circulation by value, had been "Demonetised" that is, ceased to be legal tender. Demonetisation can have a drastic effect on the economic, social and political life of the nation. The immediate period of demonetisation will adversely affect the economy with all yard stick of economic development showing a decelerating rate of growth in incomes and employment. Growth during the period will be at the nation's lowest potential. Demonetisation would affect the informal sector, the small scale sector. The sectors today are responsible for 40% of GDP.

Ever since the GDP numbers for April-June quarter came in at a dismal three-year low of 5.7 %, several industry experts and economists have been pointing fingers at the effects of demonetisation for the current slowdown and bleak growth outlook. The impact of demonetization was felt more in the social sector and the worst affected was also the poor and the common people. Demonetization has indeed served as a double whammy. It has reduced business investments in small businesses that create most employment, as well as cut into consumption of goods.

Introduction

Demonetisation represents much more than destabilization; critics argue that it has struck a body blow on economic activity in India. The decision which was entirely unsuspected was announced on 8 November 2016. The monetary action of banning, Rs 1000 and Rs 500 notes produced several direct and indirect effects on transaction behaviour as well as on illegal money. Since Rs.500 and Rs.1000 notes make up some 86% of the total currency in circulation in India, especially in the vast rural areas, one economist compared the pain to what individuals might experience if 86% of their blood was removed from their bodies.

The government appears to be no longer pushing demonetisation as a “cashless” plan. It has now become a “less-cash” strategy. That is as it should be; the world doesn’t have a cashless economy so far. In India, Bloomberg data shows the share of cash in the volume of consumer transactions is 98% (against 55% in the U.S. and 48% in the U.K.). It is 90% in China and 86% in Japan. Much of the cash transactions are in rural India. So, expectedly, life came to a near standstill and much misery ensued when people found themselves unable to use their own money. Even when the money was in a bank account, limits on ATM withdrawals compounded the problem further.

It has led to a decline in economic activities and thus contributed to low GDP growth for at least couple of quarters. Similarly, the unorganised sector daily wage earners and other low income groups have suffered from income fall during the demonetisation period. This scheme has received mixed reaction till now as some of the sections are telling that it can cause hardship for common people while some sections reacted to this decision with overwhelming support. This scheme is going to impact the businesses, common people, and financial institutions along with multi diverse industrial background of India.

Objectives of the Study

The purpose of this paper is to study the Demonetisation and Its Impact on Economy and Socio-Cultural Sector in India. In order to achieve this broad objective, the following workable objectives have been set.

1. To study the Demonetisation in India
2. To study the Impact of Demonetisation on Economy in India
3. To study the Impact of Demonetisation on Socio-Cultural Sector in India

Methodology

The present research study mainly is descriptive in nature. It solemnly based on secondary data and information which is collected from the concerned sources as per need of the research. The relevant documents of various ministries and departments and organisations, articles, papers and web-sites are used in this study.

Demonetisation in India

Demonetisation means stopping a form of currency from being legal tender. That means that this currency can no longer be legally used. It cannot be used to buy things and if it is paid into the bank, your bank manager should not accept it. Demonetisation can be applied to coins, bank notes and all other forms of currency. Usually, demonetisation is part of a wider process, which involves the old currency being replaced by a new one. An explicit policy of demonetisation makes the whole process clear: the old bank notes will no longer be considered legal tender.

In India's case, the move has been taken to curb the menace of black money and fake notes by reducing the amount of cash available in the system. It is also interesting to note that this was not the first time the Government of India has gone for the demonetisation of high value currency. It was first implemented in 1946 when the Reserve Bank of India demonetised the then circulated Rs 1,000 and Rs 10,000 notes. The government then introduced higher denomination bank notes in Rs 1000, Rs 5000 and Rs 10000 in a fresh avatar eight years later in 1954 before the Morarji Desai government demonetised these notes in 1978.

On November 8 evening, Prime Minister Modi, in his televised address to the nation, made Rs 500 and Rs 1000 notes invalid, saying that it was aimed at curbing the "disease" of corruption and black money which have taken deep root. People holding notes of Rs 500 and Rs 1,000 can deposit the same in their bank and post office accounts from November 10 till December 30. All notes in lower denomination of Rs 100, Rs 50, Rs 20, Rs 10, Rs 5, Rs 2 and Re 1 and all coins continued to be valid, and new notes of Rs 2,000 and Rs 500 were introduced. There was no change in any other form of currency exchange be it cheque, DD, payment via credit or debit cards etc.

Impact of Demonetisation on Economy in India

Demonetisation is a generation's memorable experience and is going to be one of the economic events of our time. Its impact is felt by every Indian citizen. Demonetisation affects the economy through the liquidity side. Its effect will be a telling one because nearly 86% of currency value in circulation was withdrawn without replacing bulk of it. Scarcity of cash forced many small scale industries to burn down to ashes. Commercial banks found it difficult to bridge the gap between the supply of banned notes from people and the supply of currency

notes from RBI. Moreover, the National Statistical Commission revealed that demonetisation hampered the growth of the construction industry, which is the second largest employment generating industry in the country. Agriculture, which is considered to be the ‘backbone of India’, also could not cope up with the rising prices, contracting demands and money shortage.

The Indian economy slowed sharply in the January-March quarter to 6.1%, down from 7% in the previous quarter, while the overall pace of growth in 2016-17 moderated to a three-year low of 7.1%, according to data released by the Central Statistics Office. Economists said the dip was due to the impact of the government move to scrap some high value notes in November last year hurting sectors such as construction. Purely based on the rate of quarterly growth, the Indian economy may have ceded its place as the fastest growing major economy in the world to China, which expanded 6.9% during the January-March period in 2017. Overall growth in 2016-17 slowed from the previous year's upwardly revised 8% growth.

As a result of falling industrial growth and diminishing opportunities of employment, demand and supply of the Indian markets also faltered. Prices soared and purchasing power dropped in the ‘out of cash’ country. As a result, the GDP growth of India fell to 5.7% after 4 months of demonetisation (March-June 2017). It is the sixth consecutive quarter which has witnessed declining GDP.

Impact of Demonetisation on Socio-Cultural Sector in India

God made the land abundant in all its varied flora, fauna and notions but people make a nation. Ultimately, it is the thought, knowledge, ideas, skills, competence, compassion and commitment and conduct of the people who ‘rule’ and ‘are to be ruled’ that will determine the peace, progress and prosperity that prevail amidst the cultures and societies that constitute the nation. The impact of demonetisation was felt more in the social sector and the worst affected was also the poor and the common people. While this is the third time in the Indian history that Indian high value currency has been stripped of its status as a legal tender, the first two instances of demonetisation did not have an impact like the recent one. This is primarily because, this time, the demonetised currency represents 86% of the total currency in circulation.

The information on demonetisation was released suddenly and the worst affected was the common man. The social impact was drastic with marriages facing severe issues with cash transactions in marriages coming to a standstill. The impact on the health care sector was huge with hospitals refusing to accept the old currency. The common man faced severe issues transacting in the hospitals with old currencies and several cases of death have been registered for not attending the patients due to demonetisation. The impact on education sector was minimal and all universities and colleges have been instructed to enable online transactions in their website for the convenience of the students and parents. However, a lot of black money was retrieved from the educational institutions through income tax raids which was received as donations from students and hoarded as black money. Salaried people faced the issue on the opening day of the month with their salaries credited in the bank account but were able to withdraw only 2,000 rupees from the ATM machines. Social problems in the form of road blockades and quarrels arose with people waiting in long queues before the banks and ATM machines. People become restless spending an entire day to withdraw money. Several deaths have been registered as a result of waiting in long queue. Pensioners are worst affected with no special provisions made for senior citizens in banks.

The demonetisation policy is being seen as a financial reform in the country but this decision is fraught with its own merits and demerits. The long term consequences and gains include ushering in a behavioural change at all levels of society. It is a part of the grand “cultural revolution” that the PM is working on. The entrenched old order needs to make way for a new normal. It is an attempt to make a cashless society and create a Digital India. Instruments and institutions prove that demonetisation has facilitated digital transactions. POS machines and use of card based payments are very popular now compared to the pre-demonetisation period. Among the more sophisticated groups, online payments have become common. This Cultural Revolution, impinging on all walks of public and private life amounts to shaking up the system.

Conclusion

The demonetisation undertaken by the government is a large shock to the economy. The reduction in overall investments, both in the formal and informal sectors, would certainly reduce economic growth potential. At the same time, it creates unavoidable income and welfare

losses to the poor sections of the society who gets income based on their daily work and those who doesn't have the digital transaction culture. Overall economic activities will be dampened in the short term. But the immeasurable benefits of having more transparency and reduced volume of black money activities can be pointed as long term benefits.

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Demonetisation: A Dispassionate and Rational Perspective

Anantanaga H P³⁶ and Manjunatha Narasagondar³⁷

1.1 Introduction

On November 8, 2016 the government of India announced that two of India's high-denomination banknotes / paper money, namely, INR 500 and INR 1,000 in circulation then, would cease to be legal tender. To cushion the adverse effects of its announcement on the people and on the country's trade and industry, the government made available some remedial measures over a 50-day period that followed the announcement. During this period, those in possession of the demonetised INR 500 and INR 1000 banknotes could exchange them for the newly introduced INR 500 and INR 2000 paper money from banks upon compliance with

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certain formalities. The formalities were meant to ensure that a clear and reasoned audit trail was left behind. The inevitable chaos ensued, leaving many people confused and leaving some dead. The dust, after all, did not settle quickly. Nor could the episode be forgotten.

1.2 Statement of the problem

Demonetization of high value banknotes / paper money is nothing new to India. Way back in 1978, paper money with face value of INR 10,000 was demonetised. The exercise did not result in chaos of the kind witnessed recently. Nor did it attract any criticism worth the name. The fact of the matter was that not many of the demonetised INR 10,000 banknotes were in circulation. It hardly made news in the circumstances. But the demonetisation exercise of 2016 was far different in terms of its implications. It left the people of the country as also the trade and industry of the country in utter chaos. Many charlatans came out with their views. On its part, the state as well as those associated with the state came out with their own statements. Some said the move would only affect those who had piled up black money. Yet some said that eventually the move would benefit the common man who had no black money to hoard in the sense that the de-hoarded money could be used for the welfare of the common man. Another school of thought held that the move was the most cost-effective and perhaps the only painless way of bringing tainted money back into circulation. It would inflict some pain on innocent people for a brief period, though. Another school of thought held that the government would use the unearthed tainted money to distribute largesse to families that lived below the poverty line. Even nine months after the event none has been able to demonstrate the impact of demonetisation convincingly. Hence these statements are being taken at face value. However, one thing seems certain – it has not clicked; nor has it flopped. It has turned out to be the proverbial curate's egg, good in patches. The problem that has to be dealt with in the circumstances is to analyse the post-demonetisation developments as accurately as possible to arrive at unbiased findings.

1.3 Review of literature

1. Government of India's (GoI) decision to ban high-value banknotes as part of measures to root out corruption will impact India's economy positively, according to World Bank CEO Kristalina Georgieva (Mahua & Raj, 2017). According to her, demonetisation

may have inflicted some hardship on Indians who live in a cash economy. However, in the long run, the measure will leave the economy cleaner and more digitised. The outcome of the Indian measure would be watched keenly by other countries). Demonetisation in such a huge economy as India had not been witnessed before. It may be recalled that in November 2016, the International Monetary Fund lauded India's efforts to fight corruption through currency control. The World Bank boss said she was reminded of a European Union measure, which sought to phase out high denomination bills albeit over a longer period of time. She remarked that while demonetisation had in the short term affected cash – driven businesses, in the long term the impact would be positive. Add to it the government's focus on completing financial inclusion, digitising payments and transferring subsidies directly to the beneficiaries, the poor were bound to be benefited.

2. The Indian government wants to mainstream black money by channelling it into banks, so it can be legitimized and taxed (Tim, 2016). At the macro level, the move is bound to benefit the country and its economy. It is strongly suspected that counterfeit banknotes are being used to finance terrorists. A good chunk of tax revenue is being denied to the government, according to some informed circles. Naturally, a huge proportion of the population is vexed that it is being treated unfairly. This population is mute witness to big-ticket transactions being settled in cash right behind their back, with no tax whatsoever paid and favours bought and sold. However, the macroeconomic effects of the move could be anyone's guess.
3. Economists see GDP growth in the three months to December 2016 in the 5.5 - 6.5 percent range, vis-a-vis the 7.2 percent growth clocked in the corresponding quarter of the previous year (Prerna, 2017). India's economic growth may fall to 6.1 percent in the fiscal third quarter because of the government's demonetisation move, according to economists. Economists interviewed by *Mint* expect the GDP growth in the three months ended 31 December 2016 to be anywhere between 5.5 percent and 6.5 percent. It compares poorly with the 7.2 percent growth recorded in the corresponding quarter of the previous year. International rating agencies and multilateral institutions have pruned India's growth projections for 2016-17 to sub-7 percent levels. India's economy

had expanded at 7.1 percent and 7.3 percent in the first quarter and second quarter of 2016-17, respectively.

1.4 Research gap

Relevant though in various degrees, the reviewed studies have not dealt with the outcome of the demonetisation exercise adequately. Additionally, they have not factored in the views of the common man, namely, the consumer. As a result, a research gap has cropped up. It is this gap the present study seeks to bridge.

1.5 Scope of the present study

The study confines itself to two categories of respondents. They are 50 consumers and 30 consultants and they are based out of Bangalore (rural) and Bangalore (urban) districts. *THE FINDINGS ARRIVED AT AND THE CONCLUSIONS DRAWN FROM THE ANALYSIS OF DATA COLLECTED FROM THESE RESPONDENT CATEGORIES CAN BE GENERALISED TO THE REMAINING RESPONDENT POPULATIONS IN VIEW OF THE ENVIRONMENT THEY OPERATE IN BEING IDENTICAL.*

1.6 Objectives of the study

The objective of the study is to

1. Ascertain the perception of the negative impact of demonetisation from the respondents
2. Ascertain the perception of the positive impact of demonetisation from the respondents

1.7 Hypothesis proposed to be tested

The study proposes to test the following hypothesis:

“The cost imposed by demonetization was more than the benefits that flowed from demonetization”

1.8 Research design

1.8.1 Research methodology

The study is descriptive in nature and has used the ‘fact-finding’ survey method

1.8.2 Sources of data

Primary data has been collected from the respondents, viz., consumers numbering 50 and economists numbering 30. The secondary data has been collected from reputed finance journals, magazines and newspapers, in hard version and soft version.

1.8.3 Sampling plan

Consumers: Simple random sampling under the probability sampling method was undertaken to select the consumers since it gives each element an equal and independent chance of being selected. Accordingly, Interview Schedules were administered to 100 consumers who have exposure to the topic, namely demonetisation. The first 50 Interview Schedules received from the consumers, duly completed, were selected for the study.

Economists: Given the rather limited number of economists operating in the vicinity where the researcher lives and the time constraint, purposive or judgement sampling under the non-probability method was deployed. Applying a minimum exposure of five years to the topic, namely demonetisation as the criterion, the researcher selected 30 such respondents. This criterion, according to the researcher, is the most appropriate one for the present study. What is important is the typicality and the relevance of the sampling units to the study and not their overall representativeness to the population. Thus it guarantees inclusion of the relevant elements in the sample. Probability sampling plans cannot give such a guarantee.

1.8.4 Data collection instruments

Interview schedules, specially designed for the purpose, were administered to the respondents for collection of primary data.

1.8.5 Data processing and analysis plan

Non-parametric statistical units were used to test the association between some qualitative characters and conclusions were drawn on the basis of formation of H_0 and H_1 .

1.8.6 Limitations of the study

Primary data has sometimes been deduced through constant topic-oriented discussions with the respondents. It is possible that a certain degree of subjectivity, even if negligible, has influenced their views.

1.9 Analysis of primary data collected from consumer respondents

In the following paragraphs, the primary data collected from the 50 consumer respondents is analysed.

1.9.1 Perception of the negative impact of demonetization

As is the case with any government decision which generates numerous viewpoints, the implications of the government's decision to go ahead with demonetization too have generated many viewpoints. Hence the researcher requested the respondents to disclose their perception of the negative impact of the government's decision on demonetization. Their replies to the query appear in the following Table.

Table: 01

Perception of the negative impact of demonetization

Perception	Number of respondents
It led to shortage of low-denomination currencies resulting in reduced consumption and job losses	46
In the cash-driven Indian economy, it led to a temporary halt in productive economic activities	43
Retail traders, the semi-skilled and unskilled who are into self-employment lost their livelihoods	35
The cost imposed by demonetization was more than the benefits that flowed from demonetization	31

Demonetisation led to shortage of low-denomination currencies resulting in reduced consumption and job losses aver 46 respondents. In the cash-driven Indian economy, it led to a temporary halt in productive economic activities, according to 43 respondents. Retail traders, the semi-skilled and unskilled who are into self-employment lost their livelihoods, state 35 respondents. The cost imposed by demonetization was more than the benefits that flowed from demonetization, assert 31 respondents.

1.9.2 Perception of the positive impact of demonetization

As is the case with any government decision which generates numerous viewpoints, the implications of the government's decision to go ahead with demonetization have generated

positive viewpoints too. Hence the researcher requested the respondents to disclose their perception of the positive impact of the government’s decision on demonetization. Their replies to the query appear in the following Table.

Table: 02

Perception of the positive impact of demonetization

Perception	Number of respondents
Counterfeit currency has been eliminated	45
The taxpayer base has grown	43
Digital transactions have risen in volume and value terms	41
It led to conversion of most of the black money into white money	40
A big chunk of the informal economy has now been formalized	37

According to 45 respondents, counterfeit currency has been eliminated. According to 43 respondents, the taxpayer base has grown. According to 41 respondents, digital transactions have risen in volume and value terms. According to 40 respondents, it led to conversion of most of the black money into white money. According to 37 respondents, a big chunk of the informal economy has now been formalized.

1.10 Analysis of primary data collected from economist respondents

In the following paragraphs, the primary data collected from the 30 economist respondents is analysed.

1.10.1 Perception of the negative impact of demonetization

As is the case with any government decision which generates numerous viewpoints, the implications of the government’s decision to go ahead with demonetization too have generated many viewpoints. Hence the researcher requested the respondents to disclose their perception of the negative impact of the government’s decision on demonetization. Their replies to the query appear in the following Table.

Table-3

Perception of the negative impact of demonetization

Perception	Number of respondents
Banks temporarily stopped all lending activities	30
Cash transactions-intensive real estate, agriculture and small-scale sectors took a huge hit	26

The cost imposed by demonetization was more than the benefits that flowed from demonetization	26
Retail traders, the semi-skilled and the unskilled who are into self-employment took a huge hit.	26
It led to shortage of low-denomination currencies resulting in reduced investment and production	25
Productive activities in the informal sector came to a stop leading to production losses, job losses	24

Banks temporarily stopped all lending activities, cite all the 30 respondents. Cash transactions-intensive real estate, agriculture and small-scale sectors took a huge hit, cite 26 respondents. The cost imposed by demonetization was more than the benefits that flowed from demonetization, cite 26 respondents. Retail traders, the semi-skilled and the unskilled who are into self-employment took a huge hit, cite 26 respondents. It led to shortage of low-denomination currencies resulting in reduced investment and production, cite 25 respondents. Productive activities in the informal sector came to a stop leading to production losses, job losses, cite 24 respondents.

1.10.2 Perception of the positive impact of demonetization

As is the case with any government decision which generates numerous viewpoints, the implications of the government's decision to go ahead with demonetization have generated positive viewpoints too. Hence the researcher requested the respondents to disclose their perception of the positive impact of the government's decision on demonetization. Their replies to the query appear in the following Table.

Table-4

Perception of the positive impact of demonetization

Perception	Number of respondents
Digital transactions have risen in volume and value terms	28
The resultant lower cash to GDP ratio will help India become a cashless economy sooner	27
The taxpayer base has grown	26
A big chunk of the informal economy can be slowly by steadily formalized	25
It led to conversion of most of black money into white money	24
Tax rates can be brought down leading to improved compliance	24
Counterfeit currency has been eliminated	23

According to 28 respondents, digital transactions have risen in volume and value terms. According to 27 respondents, the resultant lower cash to GDP ratio will help India become a cashless economy sooner. According to 26 respondents, the taxpayer base has grown. According to 25 respondents, a big chunk of the informal economy can be slowly but steadily formalized. According to 24 respondents, it led to conversion of most of black money into white money. According to 24 respondents, tax rates can be brought down leading to improved compliance. According to 23 respondents, counterfeit currency has been eliminated.

1.11 Summary of findings

In the following paragraphs, a summarised version of the findings arrived at in respect of the three categories of respondents is furnished.

1.12.1 Consumer respondents

1. Demonetisation led to shortage of low-denomination currencies resulting in reduced consumption and job losses over 46 respondents. In the cash-driven Indian economy, it led to a temporary halt in productive economic activities, according to 43 respondents. Retail traders, the semi-skilled and unskilled who are into self-employment lost their livelihoods, state 35 respondents. The cost imposed by demonetization was more than the benefits that flowed from demonetization, assert 31 respondents.
2. According to 45 respondents, counterfeit currency has been eliminated. According to 43 respondents, the taxpayer base has grown. According to 41 respondents, digital transactions have risen in volume and value terms. According to 40 respondents, it led to conversion of most of the black money into white money. According to 37 respondents, a big chunk of the informal economy has now been formalized.

1.12.2 Economist respondents

3. Banks temporarily stopped all lending activities, cite all the 30 respondents. Cash transactions-intensive real estate, agriculture and small-scale sectors took a huge hit, cite 26 respondents. The cost imposed by demonetization was more than the benefits

that flowed from demonetization, cite 26 respondents. Retail traders, the semi-skilled and the unskilled who are into self-employment took a huge hit, cite 26 respondents. It led to shortage of low-denomination currencies resulting in reduced investment and production, cite 25 respondents. Productive activities in the informal sector came to a stop leading to production losses, job losses, cite 24 respondents.

4. According to 28 respondents, digital transactions have risen in volume and value terms. According to 27 respondents, the resultant lower cash to GDP ratio will help India become a cashless economy sooner. According to 26 respondents, the taxpayer base has grown. According to 25 respondents, a big chunk of the informal economy can be slowly by steadily formalized. According to 24 respondents, it led to conversion of most of black money into white money. According to 24 respondents, tax rates can be brought down leading to improved compliance. According to 23 respondents, counterfeit currency has been eliminated.

1.12 Conclusions

Conclusions relate to the hypotheses. They are answers to the research questions.

1.13.1 Hypothesis testing

Hypothesis

As already explained, the following is the hypothesis proposed to be tested:

“The cost imposed by demonetization was more than the benefits that flowed from demonetization”.

Hence H_0 and H_1 are as follows:

H_0 : The cost imposed by demonetization was not more than the benefits that flowed from demonetization

H_1 : The cost imposed by demonetization was more than the benefits that flowed from demonetization

Category	Observed Values		
	Yes	No	Total
Consumers	31	19	50
Economists	26	4	30
Total	57	23	80

Category	Expected Values		
	Agree	Disagree	Total
Consumers	35.625	14.375	50
Economists	21.375	8.625	30
Total	57	23	80
	Agree	Disagree	
o-e	-4.6250	4.6250	
	4.6250	-4.6250	
(o-e) ²	21.3906	21.3906	
	21.3906	21.3906	
((o-e) ²)/e	0.6004	1.4880	
	1.0007	2.4801	
CV	1.6012	3.9681	5.5693
TV			3.8415
p			0.0183

On the basis of the primary data collected from the respondents, vide Tables: 1,2,3, and 4 a chi-square test was applied to ascertain the association, if any, between the two variables, namely, price and buy decision. The following Table reveals the computation made using MS-Excel:

The calculated value of χ^2 is 5.5693, higher than the table value of 3.8415 for an alpha of 0.05 at one degree of freedom. Hence the null hypothesis is rejected and the alternate hypothesis is accepted. $p=0.0183$ is the inverse of the one-tailed probability of the chi-squared distribution. In other words, *the cost imposed by demonetization was more than the benefits that flowed from demonetization.*

1.13 Researcher's recommendations

1. Paradoxically, the demonetisation of high value banknotes led to scarcity of and at times, to non-availability of low value banknotes which the vulnerable sections of society like daily wagers, and the seasonal labour force, uses heavily to meet their day-to-day

- expenses towards essential items. It is unfortunate that the powers that be did not factor in or did not take seriously, these collateral consequences before announcing demonetisation. Had the powers that be been imaginative enough, several unpleasant and unfortunate consequences like death of senior citizens who queued up to exchange their demonetised banknotes for the new banknotes could have been easily avoided. Adequate stock of low value banknotes would have alleviated the unfortunate consequences considerably.
2. When an extreme remedy like demonetisation is applied, a painful phase will follow at least briefly. However, it is a sacrifice all sections of society should grin and bear in national interest. After all, in the medium term and long term, it is the honest citizen of the country that is going to benefit from the positive impact of demonetisation. Even in the best equipped and best governed countries, the adverse effects of demonetisation can only be minimised but not eliminated altogether, at least in the short term.
 3. There is no denying the fact that demonetisation put paid to the nefarious activities of some unscrupulous sections of society which benefited directly or indirectly by circulating counterfeit banknotes. Demonetisation purged the economy of counterfeit money and more importantly, shut off the supply of money to anti-national elements like terrorists.
 4. Even the worst critic of demonetisation will admit that demonetisation has led to black money being mainstreamed. It has found its way to banks, thereby improving the liquidity of banks, enlarging the taxpayer base and generating additional tax income for the government.
 5. Demonetisation burst the asset bubbles building up menacingly in sectors like real estate. Upon demonetisation, the inflated price of such assets corrected themselves thus making them affordable to people who genuinely needed and still need such assets. All such assets which grew beyond what they deserved in terms of market value, began to fall to realistic levels.
 6. The demonetisation effort has also helped the country to take a major step toward the digitisation of its economy, in value terms and volume terms.
 7. Most critics and policy makers, in particular those from the western hemisphere, do not realise that the Indian economy is far different from the western economies in terms of

composition, design and structure. Thus the metrics applied internationally cannot present a true and fair picture in the Indian milieu. The informal sector of the Indian economy is almost as important as the formal sector in value and volume terms. Hence the results gleaned from application of the so-called international metrics could at best be described as fair but not accurate!

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Demonetization – Its impact on Indian economy

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Abstract:

Money is the life blood of every economy. With the growth of civilization and mankind, the needs of human beings increased. In order to fulfill human beings unlimited wants barter system emerged. But over a period of time, the invention of money became a strong pillar to build an economy. Money exchange appears to be more convenient than barter because it obviates the “double coincidence of wants” and is capable of sustaining relatively complex economy. Money exchange facilitates ease of doing business, facilitates taxation and national integration. All activities such as production, exchange, distribution, services etc. form an economy. It is called formal economy. An informal economy is neither economic

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activity/activities that is neither taxed nor monitored by Government, contrasted with a formal economy. Presence of corruption, black money, counterfeit currency, poor governance etc. promotes and establishes parallel economy. Indian government has taken a bold decision on note ban on 08/11/2016. Central government was a judicious, well-thought out and well-implemented step, and whether it would really eradicate all the existing black money. 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. The Indian government moved as well as decided on November 8, 2016 to demonetize the two notes with biggest denomination i.e. Rupees 500 and 1000 which are in combine recorded with 86% participation in the total cash supply chain of the country. Attempts have been made through this paper to get an insight about the demonetization, various issues involved, measures adopted by the government to overcome from the demonetization affect.

Keywords: *Demonetization, Corruption, Black money, Digital economy, National currency.*

Introduction

The 'demon' in demonetization is in the beginning. Any Government withdraws the legal tender rights of any denomination of currency, it is known as demonetization. On November 8, Indian Prime Minister Mr. Narendra Modi announced in a broadcast to the nation that Rs. 500 and Rs. 1000 currency notes would no longer be recognized legally as currency. The total currency in circulation in India was Rs. 16.42 lac crore (US\$240 billion) of Rs. 1000 and Rs. 500 notes. The government believe that this demonetization is required for the four main reasons first reason is for stopping the funding of terrorism, second reason for facing the problem of fake currency, Third reason for making the black money worthless and fourth reason for reducing the corruption, etc. The need for the government to keep the move a secret because the tax evaders would not be aware before the announcement of demonetization took place. For Modi, this is work in progress. In his speech to the nation, he highlights what his government has done so far. Narendra Modi has prompted it will take 50 days for people to adjust to the change. This announcement appears to be the most important change made by the

Narandar Modi's government to date, says Girish Vanvari, partner and head KPMG in India. A decision like this can result in the sweeping up of a system for which many trust that it could not be done, as earlier attempts did not have rich impact. However, the decision by Prime Minister Mr. Narendra Modi is one the most historical steps in India. A decision like this can help control inflation, recapitalize banks, minimizing the interest rates and making the economy vibrant, with capital inflows. India is the second most populated country in the world with nearly a fifth of the world's population. Out of the total 121 crore Indians of Indian population, 83.3 crore of population live in rural areas while 37.7 crore stay in urban areas, said the Census of India 2011. As a rural populated country most of the rural population are engaged in agricultural activities as most of the population of rural areas depends on agriculture. Agriculture forms the backbone of the country's economy. The agricultural sector like forestry, logging and fishing accounted for 17% of the GDP contributes most to the overall economic development of India. it is the largest employment source and a important piece of the overall socio-economic development of India The states of Uttar Pradesh, Punjab, Haryana, Madhya Pradesh, Andhra Pradesh, Telangana, Bihar, West Bengal, Gujarat and Maharashtra are key contributors to Indian agriculture.

The dictionary meaning of DEMONETIZE is "To deprive (a metal) of its capacity as a monetary standard" or "To withdraw from use as currency" So, demonetization is the act of stripping a currency unit of its status as legal tender. It is the act or process of removing the legal status of currency unit. A currency on which Governor of RBI on behalf of Central Government guarantees by making statement "I promises to pay the bearer, the sum of money" which empowers it a legal status. From the date of demonetization, all old currencies which are demonetized will cease to be a legal tender. Such currency cannot be used as money to do any transaction henceforth, but to replace with a new currency.

Reasons of Demonetization

- To promote a Cashless economy
- To eradicate counterfeit currency
- Eliminate black money
- To combat corruption

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- To combat inflation
 - Crackdown on terrorism and Naxalism
 - To promote a cashless economy.

History of demonetization in India

India had an experience of demonetization of its currency twice before. The first was when Rs. 1000, Rs. 5000 and Rs 10000 notes were taken out of circulation on 12th January 1946, a 1 ½ year before the Independence. The highest denomination note ever printed by RBI in India was Rs. 10000 note introduced for the first time in the year 1938. However all three of Rs. 1000, Rs 5000 and Rs. 10000 notes were again reintroduced in 1954. The second phase of demonetization was done on 16th January 1978 when an ordinance was promulgated to phase out notes with denomination of Rs. 1000, Rs 5000 and Rs. 10000. On 12th January 1946 demonetization was resorted to but the Direct Tax Enquiry Committee in its interim report observed, “Demonetization was not successful then, because only a very small proportion of total notes in circulation were demonetized in 1946 and its worth was Rs. 1,235.93 crores”. On 16th January 1978, demonetization of high denomination notes was introduced. The high demonetization notes as on that day amounted to Rs. 146 crore and total notes tendered to RBI amounted to Rs. 125 crore as per data available till August 1981.

Objective of the Study: To study the impact of demonetization on Indian economy.

Data source:

This research is descriptive in nature. Basically data from secondary sources are used for the preparation of this report. Secondary data are collected from different books, journals; articles, periodicals, research papers.

Impact of demonetization:

On the midnight of 8th November, the Indian Government makes a sudden announcement to make the currency notes of INR 500 and 1,000 invalid in an attempt to deal with black money. The Indian government has introduced new 500 and 2,000 Rupees currency notes. This decision affected poor class, middle class and upper-class peoples in India. The

dishonest upper class is the worst hit as they stored 500/1000 Rupees note in huge amount. According to data taken from Reserve bank of India official website 5,702 billion and 5,081 billion value notes of Rupees 500 and 1,000 respectively in circulation in 2014. There are some merits and demerits of Demonization in Indian economy. All though the impact of demonetization is for short term but it may lead India to form a stronger economy in long term.

Impact of demonetization on common people of India.

Demonetization is a generation's memorable experience and is going to be one the economic events of our time. Its impact is felt by every Indian citizen. As the country says goodbye to the old Rs. 500 and Rs. 1,000 rupee notes and with restrictions on exchanging money and taxation on high amounts of deposits, Indian economy had faced through some serious churns. But how is this going to affect the common person of India in the short run as well as the long run. Initially, there was a huge hue and cry about the idea; people had to wait in really long queues just to withdraw the necessary money they needed. The public doubted prime minister's plan and revolted against the bad preparation they faced in this regard. The changes did invite a lot of trouble to the public in the beginning but it all seemed worth that, as far as the long-term effects were concerned. There was a limit to the per-capita withdrawal and that was a huge issue for many people, mainly because of their personal requirements which included marriage, health, property etc. In the process of curbing black money the innocent common people and poor had seemed most suffered like, those people who do not have access to post offices and banks had seemed panicking for exchanging notes. Those families who had weddings and other special occasions are depressed due to lack of money thousands of weddings have been cancelled which impacted the vendors who supply for those weddings. Also, farmers have faced lot of problems because they could no longer afford to sell their harvest from Kharif crop or sow Rabi crops. Also Many street vendors have loosed their business because do not want to part with cash or cannot make change. People have cut back spending because the banks are rationing cash. Many Daily wage workers are unable to find work. Also Demonetization has a direct impact on sectors dealing with cash—vendors, auto rickshaw owners, taxi drivers, daily wage earners and small traders. The Indian system mainly functions on cash, and so, less cash means disruption in the flow. Therefore, the government's step to curb black money and fake currency has hit hard to poor people the most. But as the

time passed the things slowed down a bit. The queues in the banks shortened, ATMs were filled with money, new currency circulated and all these normalized the situation. Nevertheless, this change will have a huge impact on the economy. It will take some time for things to become normal again and for now, it is just a play of time till we get to know whether it was a really good decision or an overrated implication.

Impact of Demonetization on Economy:

The demonetization, by removing 86 percent of the currency in circulation, has resulted in a very severe contraction in money supply in the economy. This contraction, by wiping out cash balances in the economy, will eliminate a number of transactions for a while, since there is no or not enough of a medium of exchange available. Since income and consumption are intrinsically related to transactions in the economy, the above would mean a severe contraction in income and consumption in the economy. This effect would be more severe on individuals who earn incomes in cash and spend it in cash. To a lesser extent it would also affect individuals who earn incomes in non-cash forms but need to withdraw in cash for consumption purposes, since a number of sectors in the economy still work predominantly with cash. In terms of the sectors in the economy, the sectors to be adversely affected are all those sectors where demand is usually backed by cash, especially those not within the organized retailing. For instance, transport services, kirana, fruits and vegetables and all other perishables, would face compression in demand which is backed by purchasing power. This in turn can have two effects: while it is expected that supply exceeds demand, there would be a fall in prices, however, if supply too gets curtailed for want of a medium of exchange, prices might, in fact, rise. Thus, while generally people seem to expect prices to fall, it is quite possible that prices would instead rise.

Impact on Investment and Employment:

To keep the flows going, people might take recourse to credit - both the retailers and other agents in the economy might make supplies on credit in the hope that when the liquidity status is corrected, the payments can be realized. There would be a compression of the demand for nonessentials by all the agents in the economy in the face of uncertainty in the availability of cash. The demand from segments which have access to digital medium of exchange would

remain unaffected, but that from the rest of the economy would get compressed. This would transmit the effect to the rest of the sectors in the economy as well. The real estate sector would be badly affected. Investment in construction sector would be comedown and the employability opportunities in the said sector would also be minimized.

Impact on Agriculture:

Replacement of new Currency notes within short period would help to escape from the major effect on the economy. This would depend on the speed with which and the extent to which the cash is replaced by the authorities. If the entire cash is replaced within a short duration of time, the effects beyond the very short term of two months might be little. But a few sectors are likely to be seriously affected. It is known fact that in our Country the Agriculture sector has been providing larger employment opportunities both directly and indirectly which also help to have strong economy. This is the sowing season for the Rabi crop in some parts of the country and the harvesting season for the Kharif crop. Most of the purchases and sales in this segment of the economy are carried out through cash. With the elimination of cash from the economy, sale of kharif crop would be difficult unless the crop is sold on the promise of payment in future. Given the limited bargaining power of the farmer, the price they can realize for the crop can be adversely affected. On the other hand, in the sowing activity, people would not get access to the inputs required since most of the inputs are now purchased from the market unless they seek access to credit from the supplier. Further, if there are agents who do not get access to credit from the informal sector agents, their sowing activity and hence their incomes in the next season would be adversely affected. Thus, in spite of a good monsoon in large parts of the country, the farmer might not get the benefits.

Impact on Construction and Automobile sectors:

No doubt the Construction sector would be adversely affected. This sector works with a significant amount of cash. Payments to workers as well as a variety of purchases might be carried out in cash. So, on the supply side, this sector can be adversely affected. On the other hand, on the demand side, the demand for houses and buildings would appear as a demand for non-essentials and might be pushed on to the back burner until the economic situation normalizes. The Automobile sector has also been facing discouraging situation as the sales of

Motor Vehicles drastically come down. Public is afraid of purchasing vehicles out of their own funds. Previously certain share of the cost price of the vehicle is met out of black money.

Implementation of Online banking transactions:

The Government of India should take all steps to upgrade the Banking system as well as in the Telecom infrastructure that would provide the backbone for digital transactions. Online transactions are more transparent. Financial Intelligence Unit will track all Online transactions. For people to be able to transact at any time and place as well as for them to consider it a reliable medium of exchange, it is important that not only the banking system is upgraded to ensure that transactions can be completed without a hitch, but the supporting infrastructure too is upto the mark. The attitude of the people should also change. People should carry on online money transaction to the maximum extent. The usage of cash for payments should be minimized. So during this transitional period individuals should change their mindset in favour of digital transactions.

Measures adopted by Government

A lot of measures have been adopted by the honourable government for smoothening the way of demonetization policy. Some of such measures are as follows:

- In a very short period, the government has issued a new denomination note of Rupees 2000 and after that the new note of existing denomination of Rupees 500 has been issued in a very short span of time.
- As stated by our honorable finance minister Shri Arun Jately, adequate money has been provided to bank with existing as well as new issued notes to overcome the demand from people.
- The government has well clarified that the old currency notes will be in operation at public services places such as hospitals, for railway and bus ticket payment, petrol pumps etc. for a limited period and even toll tax was completely removed for a small period to smoothen the transport.

- A limit on withdrawn of money has been imposed for a limited period whether it is through ATM's or banks so that every citizen could accomplish his/her basic requirements.
- Government is promoting the cashless transaction and in this direction, government has taken initiative with some incentives such as insurance, e- payment discount offer etc. and recently lucky winners for each week using e-payment.
- Central government as well as state government has made efforts to make their offices cashless that deal with public.
- The government has put its very big efforts through PMJDY (Pradhan Mantri Jan Dhan Yojana) accounts so that every citizen could be connected to banking in the demonetization move.
- Security official has been provided as well as enhanced in each bank as well as ATM's wherever needed to avoid the violence.
- Government has fastened the process of making technical changes in the ATM's to fit it with the new notes.
- To overcome the commission agents as well as black money holders, security forces in civil as well as in dress and CID officials as well are on their way and results are impressive.

Conclusion

Central government's recent decision to demonetise the high value currency is one of the major step towards the eradication of black money in India. The demonetization drive will affect some extent to the general public, but for larger interest of the country such decisions are inevitable. Also it may not curb black money fully, but definitely it has major impact in curbing black money to large extent. This move will have major impact on the parallel economy but sudden announcement and failure to prepare in advance has created temporary chaos and discomfort among the general public. Common Men are finding it difficult to buy with no money in pocket, wasting hours in queues which although could have been avoided if planned in advance. Overall, Demonetization is a bold step towards good governance and transparency.

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Demonetization and its Impact on Rural Population of India

Dr. Eswar Kumar Belli S⁴⁰

Abstract

According to Investopedia Demonetization means the act of stripping a currency unit of its status as legal tender. There are multiple reasons why nations demonetize their local units of currency. Some reasons include to brush-off inflation, to brush-off corruption, and to dispirit a cash system. The process of demonetization involves either introducing new notes of the same currency or completely replacing the old currency with new currency. Indian government adopted demonetization on 08 November 2016 to tackle with black money and make India a cashless digital economy. This paper analyses the effect of recent demonetization on rural economy and for country as a whole. This paper have two objectives first one To study the impact of demonetization on rural population of India and Second one To study the

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impact of demonetization on agricultural sector and farmers of rural India. This paper is based on secondary data. The data has been collected from articles, newspapers and internet etc. Graph and percentile method has been used to analyze the data and finely aimed for this paper the reviewing the general implications of demonetization on rural people.

Keywords: *Demonetization, Cashless Transactions, Rural Population.*

Introduction:

Declaration of 86 percent of currency notes as illegal tender in just a blink of time on eve of 8th November 2016 mandated the creation of immediate interruption in daily lives. This movement rendered everyone surprised as this was momentous decision and unexpected one which was declared without any prior information in the evening at 8:15 p.m. addressed by our honorable Prime Minister Shri Narendra Modi. This concept of demonetization is not new. This move is targeted for flushing the stocks of “black money” out of our economy and getting them legitimate, banked and taxable so that it becomes a part of our economy. On reviewing the microeconomic effects it somewhat proved to be beneficial: first, the uncollected revenue at various Nagar Nigams increased and second it was also a political move as it was a surgical strike on terror financing, forged notes circulation can also be restrained. However on macroeconomic level large number of population is considering this move as unfair due to the problems faced by them. Demonetization is defined as act of stripping a currency unit of its status as legal tender. It refers to cessation of current currency and replacing it with new currency.

Demonetization is not a new concept; in the past also it has been utilized by various countries as well as India to curb currency some failed very badly with this move. Table 1 shows the countries which previously banned the notes and their effects on economy.

Table No. 1
Countries which implemented demonetization earlier

Country	Year	Effect on Economy Successful/unsuccessful	Reason for failure
Ghana	1982	Made economy weak Unsuccessful	People support for black market and investment in physical assets.
Nigeria	1984	Economy collapsed Unsuccessful	Debt-ridden and inflation did not take change well.

Myanmar	1987	Unsuccessful	Led to mass protest resulting in killing of many people.
Soviet Union	1991	Unsuccessful	People did not take change positively due to poor harvest.
Australia	1996	No side effects	As the purpose was only to replace paper with plastic.
North Korea	2010	Weak Unsuccessful	People left with no food and shelter
Zimbabwe	2015	Weak unsuccessful	Face value one hundred trillion dollars dropped to \$0.5 dollar.
Pakistan	Dec 2016	Cannot be predicted	As the people have ample time to get their note exchanged.

Due to this step adverse impact on Indian economy can be evident as: banning on the medium of exchange for commodities will lead to financial crisis reducing the purchasing power of people. It is evident that demonetization has led to money contraction (to the extent of 14 lakh crore) of which the rural population and urban lower and middle as well as informal class are the worst sufferers. India is still largely dependent on primary activities including agriculture and allied activities as well as activities of informal sector where almost all the transactions are in cash.

Meaning of Demonetization

Demonetization is a radical monetary step in which a currency unit's status as a legal tender is declared invalid. In case of India this move has been taken to curb the menace of black money, fake notes by reducing the amount of cash available in the system.

History of demonetization in India:

Demonetization was first implemented in India in 1946 when RBI demonetised circulation of Rs 1000 and Rs. 10000 notes. The Government then introduced higher denomination bank notes in Rs 1000 Rs 5000 Rs 10000 in 1954 before Moraji Desai Government demonetised these notes in 1978.

Demonetization in recent times:

On Nov 8 evening Prime Minister Narendra Modi , in his televised address to the nation , made Rs 500 and Rs. 1000 notes invalid, saying that it was aimed at curbing the disease of corruption and black money which have taken deep root and new notes of Rs 2000 and Rs 500 were introduced. There was no change in form of currency exchange be it cheque, DD payment via credit or debit card etc. The 'demon' in demonetization is in the beginning. Any

Government withdraws the legal tender rights of any denomination of currency, it is known as demonetization. On November 8, Indian Prime Minister Mr. Narandar Modi announced in a broadcast to the nation that Rs. 500 and Rs. 1000 currency notes would no longer be recognized legally as currency. The total currency in circulation in India was Rs. 16.42 lac crore (US\$240 billion) of Rs. 1000 and Rs. 500 notes. The government believe that this demonetization is required for the four main reasons first reason is for stopping the funding of terrorism, second reason for facing the problem of fake Currency, Third reason for making the black money worthless and fourth reason for reducing the corruption, etc. The need for the government to keep the move a secret because the tax evaders would not be aware before the announcement of demonetization took place. For Modi, this is work in progress. In his speech to the nation, he highlights what his government has done so far. Narandar Modi has prompted it will take 50 days for people to adjust to the change. This announcement appears to be the most important change made by the Narandar Modi's government to date, says Girish Vanvari, partner and head KPMG in India. A decision like this can result in the sweeping up of a system for which many trust that it could not be done, as earlier attempts did not have rich impact. However, the decision by Prime Minister Mr. Narandar Modi is one the most historical steps in India. A decision like this can help control inflation, recapitalise banks, minimizing the interest rates and making the economy vibrant, with capital inflows. India is the second most populated country in the world with nearly a fifth of the world's population. Out of the total 121 crore Indians of Indian population, 83.3 crore of population live in rural areas while 37.7 crore stay in urban areas, said the Census of India 2011. As a rural populated country most of the rural population are engaged in agricultural activities as most of the population of rural areas depends on agriculture. Agriculture forms the backbone of the country's economy. The agricultural sector like forestry, logging and fishing accounted for 17% of the GDP contributes most to the overall economic development of India. it is the largest employment source and a important piece of the overall socio-economic development of India The states of Uttar Pradesh, Punjab, Haryana, Madhya Pradesh, Andhra Pradesh, Telangana, Bihar, West Bengal, Gujarat and Maharashtra are key contributors to Indian agriculture.

Objective of Paper:

- To study the impact of demonetization on rural population of India.
- To study the impact of demonetization on agricultural sector and farmers of rural India.

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- To study the impact of demonetization on economy of India.

Research Methodology:

The paper is based on secondary data. The data has been collected from internet, articles newspapers etc. Graph and percentile method has been used to analyze the data.

Impact of demonetization on rural population of India.

Demonetization is a generation's memorable experience and is going to be one the economic events of our time. Its impact is felt by every Indian citizen. As the country says goodbye to the old Rs. 500 and Rs. 1,000 rupee notes and with restrictions on exchanging money and taxation on high amounts of deposits, Indian economy had faced through some serious churns. But how is this going to affect the rural population of India in the short run as well as the long run. Initially, there was a huge hue and cry about the idea, people had to wait in really long queues just to withdraw the necessary money they needed. The public doubted prime minister's plan and revolted against the bad preparation they faced in this regard. The changes did invite a lot of trouble to the public in the beginning but it all seemed worth that, as far as the long-term effects were concerned. There was a limit to the per-capita withdrawal and that was a huge issue for many people, mainly because of their personal requirements which included marriage, health, property etc. In the process of curbing black money the innocent common people and poor had seemed most suffered like, those people who do not have access to post offices and banks had seemed panicking for exchanging notes. Those families who had weddings and other special occasions are depressed due to lack of money thousands of weddings have been cancelled which impacted the vendors who supply for those weddings. Also, farmers have faced lot of problems because they could no longer afford to sell their harvest from Karif crop or sow Rabi crops. Also Many street vendors have loosed their business because do not want to part with cash or cannot make change. People have cut back spending because the banks are rationing cash. Many Daily wage workers are unable to find work. Also Demonetization has a direct impact on sectors dealing with cash—vendors, auto rickshaw owners, taxi drivers, daily wage earners and small traders. The Indian system mainly functions on cash, and so, less cash means disruption in the flow. Therefore, the government's step to curb black money and fake currency has hit hard to poor people the most. But as the time passed the things slowed down a bit. The queues in the banks shortened, ATMs were filled with money, new currency circulated and all these normalized the situation. Nevertheless, this

change will have a huge impact on the economy. It will take some time for things to become normal again and for now, it is just a play of time till we get to know whether it was a really good decision or an overrated implication.

The demonetization of Indian currency has created numerous hardships to common person but in long way it has lot of advantages.

1. To the extent of penalties imposed by the Income Tax department on the illegal conversion of black money into white money, the revenue to the government will increase in the immediate future.
2. Unaccounted monies held as cash which was not productive will become productive as it enters the legal system.
3. Counterfeit money in circulation which was a ongoing menace all over India will cease to exist with immediate effect.
4. Funding of terrorist and other illegal activities will be curtailed as they generally are funded by black/counterfeit money.
5. To the extent the black money held by the political parties is flushed out, the elections in the near future will be clear and more transparent.
6. With huge cash at the disposal of the banks, the borrowing of money will get cheaper providing impetus to economic growth.
7. Government can avail finances at lower rates and speed up the infrastructural spending creating huge job opportunities.

So far, it can be said that this is a historical step and must be supported by everyone. We should look at the bigger picture which will definitely fetch results in the future. This is what the whole country has been asking for a long time which has finally happened.

The impact of demonetization on agricultural sector and farmers of rural India:

Agriculture plays an important role in the Indian economy. Over 70 % of the rural households depend on agriculture. Agriculture is the backbone of Indian economy as it contributes about 17% to the total GDP and provides employment to over 60% of the population. It also provides raw materials to leading industries such as cotton textiles and sugar industries. The number of various agricultural commodities like tea, coffee, spices and tobacco constitutes our main items of exports. This amounts to almost 15% of India's total exports. Hence agriculture provides foreign exchange which helps us to purchase machines from

abroad. It also maintains a balance of payments and makes our country self-sufficient. Agriculture has brought fame to the country. India holds first position in the world for the production of tea and groundnuts, Indian agriculture has registered speedy growth over last few decades.

Demonetisation has affected every Indian, but it has hit the agricultural sector badly. Agriculture in India accounts for 50 percent of the workforce. Farmers, who are the backbone of our economy, were severely affected by the note demonetization of 8 November 2016. Agriculture is impacted through the input-output channels as well as price and output feedback effects. Sale, transport, marketing and distribution of ready produce to is dominantly cash-dependent. Farmers suffered a setback due to nationwide cash shortage and a fall in the demand for vegetables in wholesale markets. . Farmers were not able to purchase inputs like seeds from market. They were using old seeds from the last year harvest and not purchasing new quality seeds from market. In northern Indian states, the crop of rice was prepared. Some of the farmers have sold their crops, and some was in the process. It is true that almost crops are sold in cash the transaction which has been done is cash is to be deposited in the banks and can be withdrawn accordingly. The consumers of rural farmer is not as advance as the urban middle class, which can be easily managed with a very little amount of cash. The problem of the demonetization is largely associated with the rural areas of the country have lesser number of banks and ATMs compared to the urban areas and semi-urban areas. The problem was not the inaccessibility of the banks and ATMs, but the limit on cash which can be withdrawn. A farmer can take a day out from his busy schedule and manage to go to bank and get the cash back, however the limit on the amount withdrawal forces him to do that again and again and the banks in rural areas are some 20 or 30 kilometres the roads in rural areas can make it look like 50 kms. Repeating that 4 or 5 times in a week can be exhaustive. However, the limit has been exceeded than before and government is taking other necessary formalities which would ensure that the farmer does not have to commit suicide. If the income of peon working in government services and farmers of our country is compared since 1964, the income of peon has increased 1000 % and that of farmers by meagre 19%. Besides those negative effects of demonetization there is also hope of every Indian farmer upon demonetization that this historical step will concrete our economy and also fruitful for our country in future.

The various effect of the Demonetisation would be very positive for farmers are:

1. With plentiful money, the government become able to complete the incomplete irrigation projects so that more land comes under irrigation and two crops instead of one crop in a season can be taken by farmers. This will double up their income as our Prime Minister Mr Narandar Modi has promised to do.
2. The interest rates of banks started falling which could reduce the capital cost and farmers can now go for farm mechanisation.
3. Government can build cold storage chain thereby minimize the wastage which are 80, 000 cr annually.
4. The intermediaries and commission agents blooming on black money will be minimized and farmers can directly deal with consumers and they can credit instant payments to their bank account.
5. The owners of essential commodities like pulses, grains, potatoes onion e.t.c will run out of cash and will not be able to rig the prices. The farmers and also consumers will be benefitted as the price would remain stable.
6. The quality of fertilizers will improve in that the nutrients contents will not be depreciated.
7. The Government can conclude the pending electricity generating projects so that the farmers who are suffering by lack of proper electricity will get more electricity so that he can run their drip irrigation system and save water.
8. The national portal made for farmers of the country will be more effective as the farmers will have wider market instead of local and Districts. They will get more prices for their production with payment directly in their bank accounts.
9. Farming becomes more viable and there will be reverse migration to villages from cities. The smart phone holder children of farmers will not now shy from working on farm in future.

Problem faced by agriculture after Demonetization :

1. Agricultural economy is labour intensive absorbing 70% of employment contributing 50% to GDP. Cash transaction dominates agricultural society. So Black money is quite common in rural areas.

2. After demonetization farmers were unable to sell their goods as consumer had lack of cash. A farmer depends mostly on village money lenders for liquid cash which is also stopped.
3. Rural consumer spends have contracted from a growth of 12% in 2015 to 10.9% in 2016.
4. Job losses, fall in farm income, social disruption especially in cash intensive sector.
5. In service sector in rural areas, sellers did not able to sell their product because of cash crunch .At the same time they were not getting raw materials for providing the service. For example, cobbler who is selling footwear in rural areas did not able not sell their product because of cash crunch, at the same time they were not getting essential raw material such as leather as card is not common in rural economy even if cash transaction stopped.
6. Transport operator who are taking cash only for giving transport facility which is only way of movement of raw material and finished product were also stopped their operation.
7. In rural areas there are so many banks having many branches.38 % of total branches are present in rural segment. So the problem is not infrastructure but the blockage caused by inability of banks to deliver cash in adequate quantities and denomination on time.

The impact of demonetization on economy of India:

India has a mixed economy. The economy of India is the sixth-largest economy in the world measured by nominal G.D.P and also the third-largest by purchasing power parity. The World Bank has predicted the GDP growth rate of 8 % for India by 2017 and said that a strong expansion in the country, coupled with favourable oil prices, would accelerate the economic growth in South Asia. In India, GDP growth is expected to accelerate to 7.5 per cent in fiscal year 2015/16. It could reach 8 per cent in FY 2017/18, on the back of significant acceleration of investment growth to 12 per cent during FY 2016-FY 2018, Indian economy is the fastest growing economies among all emerging nations. At the same time, India's economy is very much sensitive to any uncertainties that happen in the world. On 8th November 2016 Narendra Modi banned the circulation of Rs. 500 and Rs. 1000 currency notes to curb black money in India, it will definitely affect Indian economy in near future. In the short run, people will face

some difficulty in getting cash as trading of high-value notes is banned and a limit imposed by government on withdrawal of the cash from the ATM and banks. This will reduce liquid cash with people and they will start consuming less. As Indian GDP is consumption driven, demonetization will impact GDP of the country for next one or two quarters. People owing black money will deposit their cash in banks. So the liquidity with banks will increase and they can lend more money in the market. The supply of money in the market will definitely increase and hence interest rates will reduce which will boost investment in the country. Another positive impact of demonetization is those people who are depositing their black money in the banks have to pay taxes to the government which will lead to increase in government savings. The government can use these savings for further investments (government spending) and hence increase in GDP.

Problem faced by Indian economy after Demonetization :

1. Invalidation of 500 and 1000 notes threatens to push Asia's third largest economy into liquidity crisis.
2. Demonetization impacted severely as it led to cash crunch which will ultimately result in GDP growth crashing to 0.5% in the second half of financial year 2016-17 meaning hereby it would decelerate 0.5% down from 6.4% in the previous six months. Growth from October to December quarter it will show negative growth (as per reported by Ambit Capital, Mumbai based equity research firm).
3. Disruption in Supply chain Management: "The entire supply chain has been broken," Impact on supply chain of goods and services is dismantled which will further impact the production. Somani reported that they are cutting their production but if it goes for one or two months then they will badly suffer.
4. Businessmen are deprived of funds overnight to carry trades, as they neither have source goods nor they can pay the transport of goods to market. Retailers cannot sell their commodities since customers are not having cash and can provide on credit only up to certain extent.
5. People comprising from unorganised sector to big consumer goods have seen their income tumbled by approximately 80 percent in the first week of swap alone.

6. Population relying on informal, cash based are severely hit. An interview showed that Green grocer of New Delhi borrows money to run his shop and he gave vegetables on credit for first two days but now he is forced to shut down his shop as he doesn't have enough cash, he also told that if this condition persists for more than a two weeks then his family might have to go foodless.
7. For bigger firms it has been more difficult to pay their employees.
8. For construction sectors cash is the basic form in which payments are paid.
9. India's vast services sector, which accounts for two-thirds of GDP, is worst hit.
10. Credit Suisse estimates that their more than 90 percent consumer purchases are made in cash and hence purchasing power is lessened which ultimately affects the earnings.
11. Several eateries reported that crash in card swiping machines compelled them to refuse to customers who did not have sufficient smaller denominations.

Conclusion:

Demonetization is a one step of many steps in fighting corruption, black marketing, and financing insurgency. However preparation for demonetization was lop-sided, and its impacts was terrible on Indian public. If 86% of cash is taken out, with a meagre amount available, all market transactions have been killed. The people, who were targeted, did not come on streets, but common folk are out from their work places as well as homes. , Somebody put a parable on social net. For killing ten crocodiles, government pumped out all water from the pond results killing ten thousand fish in pond but Crocodiles walked off on dry sand. With an intention to rid the country of black money and dig out tax defaulters and black money holders, government has taken step to demonetized Rs 500 and Rs 1000 notes. This move will have major impact on the parallel economy but sudden announcement and failure to prepare in advance has created temporary chaos and discomfort among the general public. Common Men are finding it difficult to buy with no money in pocket, wasting hours in queues which although could have been avoided if planned in advance. However the effects of change are emergent from the system itself and cannot be determined beforehand. Hence we can only speculate future macroeconomic effects of demonetization.

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Demonetisation: It's Impact on Indian Economy – Myths and Realities

Dr. Jaisheela B⁴¹
Abstract

The present paper highlights the impact of demonetisation on Indian Economy and it discusses about the some myths and realities. India has amongst the highest level of currencies in circulation at 12.1% of GDP. Cash on hand is an estimated at around 3.2% of household assets, higher than investment in equities, or roughly around \$ 220 billion. Of this cash, 87% is in the form of Rs 500 and Rs 1,000 notes or roughly Rs 14 lakh crore (\$190 billion). A significant portion of the household cash on hand is generated by economic transactions that are not reported to tax authorities or generated through corruption. Scrapping the higher denomination money would either result in these being brought into the system or the money just disappearing. Demonetisation is a (radical) monetary step in which a currency unit's status as a legal tender is declared invalid. This is usually done whenever there is a change of national currency, replacing the old unit with a new one.

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Key words: GDP, Economy, Demonetization, Monetary, Myths, Realities

Introduction:

Demonetization means the Reserve Bank of India has withdrawn currency notes i.e. Rs 500 and Rs 1000 notes as an official mode of payment. Demonetization is a generations' memorable experience and is going to be one of the economic event of India. Its impact is felt by every Indian citizen. Demonetization affects the economy through the liquidity side. Its effect will be a telling one because nearly 86% of currency value in circulation was withdrawn. Demonetization is the act of stripping a currency unit of its status as legal tender. In an important move, the Government of India declared that the five hundred and one thousand rupee notes will no longer be legal tender from midnight of 8th November 2016. The RBI was issued Two thousand rupee notes and new notes of Five hundred rupees which was being placed in circulation from 10th November 2016. Notes of one hundred, fifty, twenty, ten, five, two and one rupee will remain legal tender and will remain unaffected by this decision. This measure has been taken by the honorable Prime Minister Narendra Modi in an attempt to address the resolve against corruption, black money and counterfeit notes. This move is expected to cleanse the formal economic system and discard black money from the same. The present study focuses on demonetization and its effect on Indian Economy with special reference to Karnataka state.

Review of literature:

Dr. Ambalika Sinha and Divya Rai (2016) in their paper entitled "Aftermath of Demonetization on Rural Population" focuses on Informal sectors of Indian Economy includes 106 activities like agriculture, workers in construction, local transport, community services and small workshops like shoe makes and garment makers and rural populations and the urban poor and middle class. This paper aimed at reviewing the general implications of demonetization on rural people.

B. M. Saini (2016) in this article entitled "Demonetization-Metamorphosis for cashless India" shows the economy would establish in the March quarter but the heavy impact of demonetization means growth can accelerate only in the second quarter of the next financial year. There may be risk that gross domestic product growth could slow to 6.5 per cent in the

fourth quarter of 2016 against our current estimate of 7.3 per cent and to 7.5 percent in the first quarter of 2017 form 7.9 per cent.

Deepali Bhargava (2016) in her study “India: Assessing Impact on GDP from demonetization a J-Curve effect” stated that the government decided to scrap high value currency notes earlier on the month of November 2016, with a view to eliminate the 'black money'. The study focuses the high value currency demonetisation will have a negative impact on the economy in two main ways i.e. Temporary disruption is a range of economic activities resulting from cash shortage and beyond the temporary disruption from shortage of new currency availability.

Ramesh Chand and Jaspal Singh (2016) in their article illustrate on “Demonetization affect on agriculture”. In their work focuses on agricultural affects directly in four ways. These include area sown, crop pattern, productivity and market. The trend and pattern in sowing and marketing of crops during the seven weeks following the announcement of demonetization provide useful indications to discern effect of demonetization on agriculture sector.

Objectives of Paper

- To know the reasons of Demonetisation in India
- To analyse the current the immediate impact of demonetisation on Indian economy
- To observed the Myths and Realities on Demonetisation in Indian Industries.

Research Methodology: The paper is based on secondary data. The data has been collected from internet. Graph and percentile method has been used to analyse the data.

Reasons of Demonetization:

- To tackle black money in the economy;
- To lower the cash circulation in the country which is directly related to corruption in our country;
- To eliminate fake currency and dodgy funds which have been used by terror groups to fund terrorism in India;

Impacts of Demonetisation on Economy

- Invalidation of 500 and 1000 notes threatens to push Asia’s third largest economy into liquidity crisis.

- Demonetisation impacted severely as it led to cash crunch which will ultimately result in GDP growth crashing to 0.5% in the second half of financial year 2016-17 meaning hereby it would decelerate 0.5% down from 6.4% in the previous six months. Growth from October to December quarter it will show negative growth (as per reported by Ambit Capital, Mumbai based equity research firm).

Disruption in Supply chain Management:

- “The entire supply chain has been broken,” said by Somani, who employ 150 people across India from his base outside Mumbai, as his truck are abandoned with no money for fuel, workers won’t stack goods for free of charge, and distributors can’t pay up.
- Impact on supply chain of goods and services is dismantled which will further impact the production. Somani reported that they are cutting their production but if it goes for one or two months then they will badly suffer.
- Businessmen are deprived of funds overnight to carry trades, as they neither have source goods nor they can pay the transport of goods to market. Retailers cannot sell their commodities since customers are not having cash and can provide on credit only up to certain extent.

Cash Crunched:

- People comprising from unorganized sector to big consumer goods have seen their income tumbled by approximately 80 percent in the first week of swap alone.
- Population relying on informal, cash based are severely hit. An interview showed that Green grocer of New Delhi borrows money to run his shop and he gave vegetables on credit for first two days but now he is forced to shut down his shop as he doesn’t have enough cash, he also told that if this condition persists for more than a two weeks then his family might have to go foodless.
- For bigger firms it has been more difficult to pay their employees.
- For construction sectors cash is the basic form in which payments are paid.
- Chandubhai Kothia, head of Gujarat based Shree Ganesh Chemicals complained that limit of 24000 cash withdrawal per week is not sufficient as payments of wages to workers and transports are to be done in cash.

Some of the effects of the demonetization measure are:

1. The total currency in circulation as on Oct 28, 2016 was INR 17.54 lakh crores. According to the Reserve Bank of India (RBI), 86% of this component is in currency notes of INR 500 and INR 1000 denomination. Therefore, the currency that is being attempted to be demonetized is around Rs. 15 lakh crores. It is being estimated (internal estimates) that around 20% of this currency is in black. We believe that this money either will not come back into the system for exchange for new notes or will be surrendered as black money and taxes thereon will be paid.
2. The deposit of these notes with the Commercial Banks ends on December 30th, 2016. Thereafter, currency notes will have to be deposited with RBI till Mar 31st, 2017.
 - a. It is believe that after this date, the RBI will reduce Notes in Circulation to the extent of the money not deposited. To match its liability, it will have to reduce its asset or increase its liability. Increasing its liability would mean increase in its Net Non- Monetary Liabilities (or reserves) and declare special dividend (just an accounting entry) to the Government. The Government, in turn can reduce its bonds on the RBI's balance sheet by buying its bonds back from the reserves transferred by the RBI. The government will have multiple options about what it could to do with this special dividend. It may reduce domestic outstanding debt, prepay external debt, reduce fiscal deficit as interest cost drops, and reduce its borrowing for following years. Improvement in debt/Gross Domestic Product (GDP) ratio should also help improve the country's sovereign rating by the International Agencies. RBI's balance sheet also frees up for supporting liquidity requirements of the banking system.
3. On the other hand, the banking sector is going to see a surge of liquidity as deposits get collected. Based on our assumption (internal estimates) that (20% of currency will not be tendered back), there is going to be tendering of currency from the public to the tune of Rs. 12 lakh crores (80% of Rs. 15 lakh crores). Due to the temporary restrictions on withdrawing cash, our internal estimate is that at least 50% of the cash will remain within the banking system, i.e. of Rs. 6 lakh crores. This sudden surge in deposit of 6% of current aggregate deposits will help in improvement of liquidity. This will lead to demand for fixed income securities, particularly government securities.

4. According to a World Bank estimate in 2007, around 20-25 % of India's GDP is the size of the parallel black economy. The steps taken by the Indian Government has led to a scare in the parallel black economy and should lead to better tax compliance going ahead. This will have a telling effect on the other heavens of black money i.e. real estate and gold. Both these sectors are going to witness reduced demand. Lower demand for gold resulting ultimately in lower import of gold is expected to improve the current account balances. The Indian rupee should remain stable and display appreciating bias against hard currencies, as the current account improves and may also move into surplus.
5. The sudden change due to reduced cash transaction will lead to reduction in economic activity. We believe that the services sector growth will be majorly affected. This will lead to lowering of inflation expectation and moderation of headline inflation too. However, the effect on inflation would depend on the moderation in economic activity in those sectors that have heavy cash transactions. RBI will find larger room to reduce repo rates with moderation in inflation.
6. There are some other positives expected over the medium to long term. A more compliant economy should increase tax collections and tax to GDP ratio should improve from both direct and indirect tax. In future, an increase in use of plastic money rather than hard currency would also lead to higher money multiplier which will be more productive. To sum up, the fight against corruption, terror funding, counterfeit currency and the black economy should result in,
 - a. Increased systemic liquidity leading to higher demand for bonds
 - b. Rate reductions due to lower inflation and inflationary expectations
 - c. Stable to appreciating INR as Current account deficit improves due to lower demand for gold
 - d. Higher tax to GDP
 - e. RBI freeing up balance sheet as liability declines
 - f. Government would be able to bring down its outstanding debt liability and improve fiscal deficit
 - g. Immediate near term impact – decline in cash transactions may lead to reduction in consumption demand leading to some decline in the GDP growth.

Myths and Realities of Demonetisation:

As the government fights black money and corruption with its demonetisation move, vested interests have been circulating rumours to spread panic and derail the exercise. Here there are the ten followings myths doing the rounds and the government's response to each one of them as realities.

Myths:

1. In the next round, Prime Minister Narendra Modiji will demonetize Rs 100 and Rs 50 notes.
2. Demonetisation affects the common man, not the rich and the corrupt persons.
3. Banks are writing off loans of corrupt businessmen.
4. Government will see surge in Revenues as dividend from RBI
5. Select corporate houses and political party members were informed about the move in advance.
6. The next step is going to be sealing bank lockers and freezing gold/diamond jewellery
7. New currency notes have chips embedded inside them that will help in tracing black money holders
8. The demonetisation move will not benefit, black money holders will find other ways to store cash
9. The quality of new Rs 2,000 notes is not good and the colours are coming off
10. The cost of implementation in this is more than the benefits.
11. For withdrawal of own money, a person will be marked with indelible ink
12. India is not prepared for digital economy as only a limited number of Indians have bank accounts
13. Future generation of black money will not stop

Realities:

1. There is no such intention and demonetisation will not be done for any other denomination of legal tender notes .i.e. 100 and 50 rupees notes.
2. The common man apart from being inconvenienced to stand in queue to deposit and withdraw cash is not affected. The common man has no undeclared income and demonetisation in no way affects him. However the rich and the corrupt who have

undeclared income held in cash are affected substantially as the cash is worthless and if deposited in a bank is subject to 200% penalty plus regular taxes.

3. When an individual or a business does not pay back loan or service the interest on the loan to a bank, the bank makes provisions in its books. If the bad debt stays in the books for a certain period and still remains a bad debt, the bank takes the losses and writes off the loan. However in no way the bank has let the defaulter go. It will pursue the defaulter as long as the defaulter is alive. Demonetisation and bank bad debt write offs have no connection to each other.
4. The demonetised Rs 500 and Rs 1000 notes account for over Rs 14 trillion of the Rs 17.5 trillion of currency in circulation. As mentioned earlier, all cash with the public that has been accounted for taxation will be deposited with banks while cash that is unaccounted for taxation will not be deposited. At this point of time, there is no hard statistic on the amount of cash that is unaccounted. However for example if Rs 7 trillion is accounted and is deposited with banks and Rs 7 trillion is unaccounted and becomes worthless, RBI has to account for the Rs 7 trillion that it has printed but has now lost its legal tender status. RBI act does not allow the RBI to declare this as profit and pay the government a dividend. RBI will in all probability leave this money in its books and pass an accounting entry to account for the Rs 7 trillion of currency that has lost its legal tender.
5. There was no leakage of information to any political parties and authorized officers it is at all and complete secrecy was maintained.
6. There is no plan whatsoever of sealing bank lockers or freezing jewellery. This is entirely baseless
7. No such chips are embedded in the new notes and this is just some creative rumour mongering
8. Enforcement agencies are keeping a strict watch on all possible hoarders and instances of hoarding. Also, amendments have been made in Benami Transactions Act and information sharing agreements made with foreign governments
9. The new currency notes have a security feature called 'intaglio printing'. A genuine currency note can be tested by rubbing it with a cloth; this creates a turbo-electric effect, transferring the ink colour onto the cloth

10. Legitimate money is completely safe. Money earned through legitimate means but taxes not paid on them (black money) can be declared with taxes and penalty paid on them. Illegitimate money or crime money hoarded in cash will be completely wiped out. Counterfeit money will be completely wiped out
11. Indelible ink marking will only be for cash exchange at bank counters and not for withdrawals
12. Since the launch of Jan Dhan in 2014, more than 2.5 crore bank accounts have been opened. Considering average family size of 4.5, almost every Indian family is covered by a bank account
13. With implementation of GST from April 1, 2017, strict benami property laws, extinguishing of Mauritius round-tripping loophole, new real estate sector laws, and fear of action setting in, future black money generation will be seriously curtailed.

Conclusion:

The main objective of demonetization is to curb black money. Curbing Black Money Demonetization has made it mandatory for every person in India to deposit their old currency in the banks and exchange them for new currency. This will make the cash hoarders to deposit their money in the account and make it accountable. In this manner, black money will be retrieved to a certain extent.

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Demonetization and its Impact on Rural Society in India

Dr. C M Prakasha⁴²

Abstract:

Demonetization is defined as act of stripping a currency unit of its status as legal tender. It refers to cessation of current currency and replacing it with new currency. India is a country of villages; it is the unit of the rural society. India 68% of its population belongs to villages. Like every social phenomenon the village is an historical fact. According to A.W.Green, A village community or rural community is a cluster of people living within a narrow territorial radius who share a common way of life. Demonetization is not a new concept in the past also it has been utilized by various countries as well as India curb currency some failed very badly with this move. Demonetization is a generation’s memorable experience and is going to be one the economic events of our time its impact is felt by every Indian citizen. As the country says goodbye to the old rs.500 and Rs.1000 rupee notes and with restrictions on

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exchanging money and taxation on high amounts of deposits, Indian economy had faced through some serious churns. According to investopedia demonetization means the act of stripping currency units of status as legal tender. There are multiple reasons why nations demonetize their local units of currency. Indian government adopted demonetization on 08 November 2016 to tackle with black money and make India a cashless digital economy.

Keywords: *Demonetization, Rural society, Rural Economy, Informal Sector, Digital Economy*

Introduction: villages in India is very ancient, its origin no one knows. According to many historical references, the rise of the village is bound up with the rise of agricultural economy. The emergence of the village signifies that man passed from nomadic mode of collective life to the settled one. This was basically due to the improvement of tools of production which made agriculture possible. This in turn helped people to settle on a fixed territorial zone. Hence village community developed.

The demonetization is in the beginning. Any government withdraws the legal tender rights of any denomination of currency, it is known as demonetization on November 8, Indian prime minister Mr Narendra modi announced in a broadcast to the nation that Rs 500 and 1000 currency notes would no longer be recognized legally as currency Demonetization is not a new concept in the past also it has been utilized by various countries as well as India curb currency some failed very badly with this move. Demonetization is a generation's memorable experience and is going to be one the economic events of our time its impact is felt by every Indian citizen.

Objectives of paper:

- To study the impact of demonetization on common people of India.
- To study the impact of demonetization on economy of India.
- To study the impact of demonetization on informal sector and agricultural farmers of rural India

Research Methodology:

The paper is based on secondary data. The data has been collected from internet, articles, newspaper and books etc.

Meaning of demonetization:

Demonetization is a radical monetary step in which a currency unit's status as a legal tender is declared invalid. In India's case this move has been taken to curb the menace of black money, fake notes by reducing the amount of cash available in the system. According to investopedia: Demonetization means the act of stripping currency units of status as legal tender. There are multiple reasons why nations demonetize their local units of currency. Indian government adopted demonetization on 08 November 2016 to tackle with black money and make India a cashless digital economy.

History of a demonetization in India:

Demonetization was first implemented in India in 1946 when RBI demonetized circulation of Rs 1000 and Rs 10000 notes. The government then introduced higher demonetization bank notes in Rs 1000 Rs 5000 Rs 10000 in 1954 before moraji desai government demonetized these notes in 1978.

The General Impact of Demonetization in India:

These demonetization measures have had significant and immediate impact on the state of the Indian economy. These measures are also expected to result in long- term impact on certain industries and sectors. These measures have resulted in a significant decrease in liquidity in the short term. This is expected to ease gradually with the introduction and circulation of the new currency notes. As a result of them measures and increased deposit with banks. The bank deposit base the increased significantly and financial savings are expected to increase as a result of the shift from unproductive physical asset based savings to interest-bearing financial assets. This, in turn, is expected to enhance the liquidity position of banks, which can be leveraged for lending purposes.

An increase in the deposit base may also enable banks to lower the blended cost of funds as higher current accounts, savings accounts deposits enable replacement of higher borrowing costs and decrease overall cost of funds. With cash transactions impacted by a decrease in liquidity, alternative payment methods, such as e-wallets, online transactions using e- banking, debit and credit card usage have increased significantly. This will increase usage of such payment systems, and enable a shift towards an efficient cashless infrastructure.

Demonetization and impact on rural economy:

India has a mixed economy. The economy of India is the sixth-largest economy in the world measured by nominal GDP and also the third-largest by purchasing power parity. The country is known as a newly industrialized country, as one of the G-20 major economies, a member of BRICS and a developing economy with an average growth rate of approximately 7% over the last two decades. Indian economy is based on agriculture. About 70% of Indian population directly or indirectly depends upon agriculture. Indian economy is very much dependent on agriculture for the following reason.

- Largest contribution in national income
- Largest employment providing sector: Nearly 52% of working population is in agricultural sector.
- Source of industrial development: industries get basic raw materials from agriculture like textile, sugar, oil processing etc.
- Development of tertiary sector also happens because of growth of agriculture and industry. Tertiary sector provides helpful services to agriculture and industries like banking, warehousing etc.
- Contribution in foreign trade: agriculture plays an important role in international trade, jute tea coffee and spices are the well known country's exports.
- International importance: Indian is the largest producer of coconuts, mangoes, bananas, milk and dairy products.

Impact on rule of law and uncertainty in society:

Order is our most fundamental need, and uncertainty is the enemy of order. The decision to disrupt the medium of exchange for so many people, and then implementing it in such a haphazard way, has generated enormous uncertainty. This uncertainty that has been unleashed could have unpredictable consequences. Which ex- ante cost-benefit analysis cannot consider, for example, conspiracy theories and fraud are thriving due to this large scale disruption. Policy decisions should always try to minimize uncertainty, especially in decisions implemented at large scale. This decision fails this test.

Advantages and Disadvantages of demonetization on rural society in India:

Advantages:

- Hard cash held as black money will be brought in to the system which is traceable and taxable hence forth there by increasing the government.
- To the extent of penalties imposed by the income department on the illegal conversion of black money in to white money. The revenue to the government will increase in the immediate future.
- Unaccounted monies held has cash which was not productive will become productive as it enters the legal system.
- Counterfeit money in circulation which was a ongoing menace all over India will cease to exist with immediate effect.
- Funding of terrorist and other illegal activities will be curtailed as they generally are funded by black counterfeit effect.
- To the extent the black money held by the political parties is flushed out, the elections in the near future will be cleaner and more transparent.

Disadvantages:

- Block money invested in other forms of investment like in jewelry, real estate, gold, shares, apartments in the name of fictitious persons, given as loans etc,are absolutely untouched and will became new black money as the assets are sold and will be out of the legal system once again.
- A vast amount of monies are held at the places of worship in India as they are exempt from accountability and scrutiny. Unscrupulous people known to take advantage of this will again use this route to convert their monies from black to white to black thus avoiding coming in to the legal system within a short span.
- With 68% of the population in rural areas of India without proper access to banking and internet facilities. The cash crunch will destabilize the rural economics in the short run.
- Consumption of goods and services will decline with no black money at disposal leading to deflationary pressure on the economy.

- Consequently, production of goods and services will decline impacting the GDP growth in the near future.
- Without any further changes or addendum to the current policy. It is only matter of time before the block money is generated in the system again.
- The proportionate increase in the tax revenues generated by the block monies coming in to the legal system is negated by the loss in the tax revenues due to lower industrial and service activity.

Conclusion:

India is a country of villages; it is the unit of the rural society. India 68% of its population belongs to villages. Like every social phenomenon the village is an historical fact. Demonetization is a one step of many steps in fighting corruption. Black marketing and financing insurgency. However preparation for demonetization was lop-sided and its impacts were terrible on Indian public.

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Demonetization and its Impact on Indian Economy

Dr.Parameshwara Naik⁴³

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

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December 28, official sources said that the Income Tax department detected over 4,172 crore of un-disclosed 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 jewellery 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 words: *Demonetization, black money, Surgical Strike, digitization, Indian economy, cashless, cash crunch, currency.*

Introduction:

With effect from 8th 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, 35000 Crore Rs. Deposited in banks and approximate 1500 Crore Rs 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.

Also, RBI data showed that as of March 2016, 632,926 currency notes were counterfeit—known as an FICN (Fake Indian Currency Note). As a proportion of NIC (Notes in Circulation), the 1,000 rupee and 500 rupee notes were the highest. Nullifying these FICNs was also part of the demonetization move.

Now we talk about the impact of Demonetization on Indian Economy Sector. 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

“When you have eliminated the impossible whatever remains, however improbable, must be the truth.”

A Credit Suisse Global Survey shows that India alone accounts for nearly 250 million of the world’s poorest people. Long waits in the queues at banks are the collective sufferings, sufferings of farmers, jobless migrant labourers and daily wage earners can’t be estimated. The adverse impact is not an end, just a beginning on the hope “we’ll overcome one day” and that “every dark cloud has a silver lining.” The differential impact of demonetization on rich and poor also limits its impact on benefits.

Meaning of Demonetization:

Demonetization in a booming economy is like a huge gamble, with a limited impact on black money (unaccounted money), corruption, terrorist activities, cash hoarders and counterfeit currency. Demonetization is the act of stripping a currency unit of its status as legal tender. When any Government withdraws the legal tender rights of any denomination of currency, it is known as demonetization. In terms of value, the annual report of Reserve Bank of India (RBI) of 31 March 2016 stated that total bank notes in circulation valued to 16.42 lakh crore of 500 and 1000 banknotes.

History of demonetization in India:

Demonetization of Indian currency notes of higher denominations and voluntary disclosure schemes by Government of India to mop up black money which is generated due to undisclosed monetary deals and transactions for evading taxes is not for the first time in India.

Government of India demonetized currency in 1946 and 1978, the number of active users of e-banking services in India were very less in 1946 and 1978 making it difficult for the people. This is the third time when government demonetized high value notes. In 1946, hundred rupee currency notes were demonetized, a time limit was provided for the exchange of old currency on the basis of declaration and was not allowed if the source of income was not satisfactory. But it did not produce impressive results.

It was again announced by the government of India, on 16th January, 1978 to demonetize all the currency notes of denomination of Rs. 1,000 and above. Currency notes of Rs. 5,000 and Rs. 10,000 were in circulation in the economy. The high denomination notes were already out of circulation a week before the demonetization, exchanging old notes at a discount and sent to gulf countries were also reported as secrecy could not be maintained. It was also stated that frequent demonetization of currency notes will not serve any of the purpose as people will convert their black money in high denomination notes convert them into smaller denomination notes.

Present Demonetization in India (2016):

“This move was needed to address the issue of corruption in the country, other issues in terms of counterfeit money is important but secondary. A possible 2.5 lakh crore windfall for the government, a lower rate of interest regime for a prolonged period, better tax compliance, recapitalization of battered state-run banks are among the benefits to be delivered by demonetization of currency in India this time,” **KV Kamath, Chairman of New Development Bank of BRICS countries.** People dumped banknotes at discounts of 40% to middlemen and then instead of discounts, premia were offered in the form of interest rate between 6 % to 8 % to the persons who deposited old cash with one year locking period.

Stories of some bank officials indulged in illegal practices for personal gain, as on one side there is shortage of new currency, long waiting serpentine queues and on the other side there are instances of seizure of new notes in large volumes with some, is also a truth.

Conceptual Framework

Reasons behind Demonetization: As per my observation 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.

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 Different segments of economy:

There is short-term and long-term impact of Demonetization on different sectors of economy.

- a. **Agriculture:** The sector typically sees high cash transactions and therefore near-term impact could be seen till liquidity is infused in the rural areas. As farmers face a temporary shortage of cash in hand, it could lead to a delay in payment which in turn would hurt the related companies in the short term. As liquidity eases and cashless transactions gain acceptance, the fundamentals would be driven by the longer term drivers of normal monsoons and positive traction in acreage.
- b. **Manufacture: Automobile- Two Wheelers:** Clampdown on cash transactions and temporary cash crunch could hurt purchases particularly in the economy segment of the two wheeler space where the percentage of cash transactions have been high. However, as companies learn to work around it, demand may pick up by overall growth in consumption on the rural as well as the urban side.
- c. **Passenger Vehicles:** The seasonal slowdown seen during November and December months could get more pronounced as consumers delay purchases due to temporary

liquidity crunch and expectations of rate cuts. However, as most passenger vehicles are financed through loans, the blip would be temporary and demand may recover on the back of growth in demand in rural and urban areas as well as trickle down benefit of the 7th Pay Commission Payouts.

- d. **Commercial Vehicles:** Slackness in the economy on account of demonetization could have a negative impact on the commercial vehicle volumes which have been under pressure in recent times. However, this slowdown may be short lived and demand may pick up, led by pre-buying in response to the changes in emission norms as well as a pickup in overall economic activity.
- e. **Consumption-related sectors like consumer durables, FMCG, etc:** The outlook is near-term negative as cash sales account for a significant chunk of sales for companies in these sectors. As customers and companies migrate to the cashless platforms, demand should come back making demonetization near term neutral. In the long term, demand may shift from the unorganized players to the organized players.
- f. **GDP:** According to the government's latest growth estimates, the pace of growth will be impacted by slowing growth in the manufacturing and mining sectors and also construction activity.

This estimate is in line with the forecast of India's central bank, Reserve Bank of India, which in its last monetary policy had forecast GDP growth to be at 7.1 percent for the twelve months ending March. But this latest estimate does not consider the impact demonetization on the economy, "in the absence of sufficient information." While releasing the data, Chief Statistician **T C A Anant** said the figures for November were available and examined but "it was felt in view of the policy of demonetization of notes there is a high degree of volatility in these figures and conscious decision was taken not make projection using the November figure". This latest government estimate has been released almost a month before the standard release date of February 7. According to the data released Friday January 6th: "the Gross Value Added (GVA) at basic prices for 2016-17 from the mining and quarrying sector is estimated to decline by 1.8 percent, as compared to growth of 7.4 percent in 2015-16," a statement from the Central Statistics Office of the government said Friday evening. The GVA at basic prices for 2016-17 from the manufacturing sector is estimated to grow by 7.4 percent, compared to

growth of 9.3 percent in 2015-16, the data showed. The private corporate sector has a share of around 72 percent in the manufacturing sector.

Demonetization and its Impact in Indian Economy:

This time demon in demonetization seem to have larger impact as compared to earlier moves of the Government of India in 1946 and 1978 as Rs. 500 denomination notes were held by common man not having a single penny of unaccounted money or black money in other words.

1. **Impact on parallel economy:** Wiping of Black money, corruption and counterfeit money are the main objectives of demonetization. Temporarily these objectives may be said to be achieved to a little extent as it affected the circulation of large volume of counterfeit currency, funding of smuggling, terrorism etc.
2. **Effect on demand:** There is a gradual decline in the demand of consumer goods, real estate, property and automobiles. Many marriages happen in India on Akshay Tritiya and in winters which open the doors for earnings of florist, caterers, tentwala and many more alike purchases which were affected due to lack of cash.
3. **Effect on prices:** Decline in demand also resulted in fall in prices of consumer goods, perishable items where use of cards and acceptability of cheques are not possible. In cash based economy even the real estate sector may witness fall in prices in the short term.
4. **Effect on economic activities:** There are certain economic activities where the number and frequency of cash transactions are comparatively high as retail outlets, ticket counters, small traders, agriculture, small and medium enterprises, households, etc. Their routine functioning and profit will be adversely affected.
5. **Effect on banks:** Although liquidity of banks will increase as deposits will increase in the short term which may result in more lending and reduction in rates.
6. **Impact on payments:** Alternative modes of payment as online payment using E-wallets, apps, e-banking, usage of plastic money will increase for which development of infrastructure and systems is needed.
7. **Impact on agriculture:** Agriculture is the backbone of Indian economy. Economic activity in rural markets has slowed down, many tragic deaths, mandi arrivals of agri commodities also crashed, rural artisans, MGNREGA workers, agricultural labourers

suffered a lot as banks run out of cash, it become harder for them to collect their meager wages. Delayed sowing of Rabi crops could affect the harvest and ripple effects may be visible, macro-economic trend of growth trajectory may be derailed. Drought affected regions are coping with the problems of less rain, less crop and to worsen the effect also facing the problem of less cash. Many farmers with debt burden are committing suicide and due to demonetization deposits in their accounts increase through Jan Dhan Accounts should also be inspected.

8. **Impact on productivity:** The loss of working days of every person due to visit to banks or ATMs with long waiting period, the time involved in journey to banks, ATMs in many urban areas should also be considered.
9. **Impact on industrial growth:** Selling of products and services has become tough in these tough times, thereby registering decline in profit figures this quarter. Many companies are slashing their production and laying off the employees, and threatening jobs of many. FMCG companies are postponing their new product launches as consumers face the currency note shortage in the wake of the government's demonetization drive. Every industry be it big or small, cash based or online players is affected by the demonetization. The used car market is 1.2 times the new car market according to a recent report by vehicle pricing guide Indian Blue Book.
10. **Impact on black money:** Demonetization targets only a small portion of the black economy as the untaxed money is in circulation, doubling the untaxed income, in gold, real estate and overseas assets, the remaining unaccounted money held in cash is only to be converted.
11. **Impact on digital transactions:** Digital transactions are increasing and also promoted these days. The government of India, through the schemes of Lucky Grahak Yojana, Digi-Dhan Vyapari Yojana unveiled by Niti Ayog and run by NPCI for 100 days will launch on 25th December offer Rs. 50 lakh to Rs. 1 crore to merchants and consumers for digital transactions till April, 2017. Government is trying to achieve digital inclusion, shifting India to cash-less or less-cash economy.
12. **Impact on daily wage workers:** Daily wage workers are being laid off or retrenched as a result of low production and have nowhere to go as they have left their villages long back and with no work, no money it becomes all the more difficult to live in cities.

Thus, it is clear from the above graph, the overall consumer sentiment rose over 210 bps to 98.75 from 96.65, while the unemployment rate fell by nearly 150 bps to 6.10 per cent during the week demonetisation was announced. Disrupted consumption is the main problem and it is going to take time for demand to pick up so that investment picks up.

13. **Impact on inflation:** Post demonetization the Wholesale Inflation (WPI) eased to 3.15% in November compared with 3.39% in October due to fall in demand as a result of cash crunch. Consumer inflation touched to two-year low of 3.63% in November compared with 4.2% in October In the WPI basket, food articles inflation dropped to 1.54% from 4.34%. (data released by Ministry of Commerce and Industry on 14th Dec, 2016)
14. **Impact on GDP and stock market:** Post demonetization, India's GDP growth may be down by 1% to 1.25% in the quarter ended December 2016. India's economic growth is estimated to slow to 7.1 percent in the current fiscal year ending March 31 compared to 7.6 percent last year, the first indicator of the impact of the demonetisation drive. (data released by the Indian Central Statistics Office). Stock markets are like mirror of economy. Small cap and midcap stocks may see a bull run. IT related software and hardware companies have become investors' first choice when country is moving towards less-cash economy. Stocks of State-run companies on the hope that Government would increase the spending on infrastructure as roads, power, rural housing and farming will show an upward move amidst the worries of economic slowdown.
15. **Impact on Indian Currency:** Rupee has become stronger than currency of 143 countries or economics which includes Euro, Australian Dollar, Swiss Franc, Singapore Dollar, Japanese Yen, British Pound, Canadian Dollar and Hong Kong Dollar. Out of currencies of 161 countries it has become weaker than 17 currencies after demonetization which includes Russian Ruble and South African Rand

Conclusion:

“When you change it is progress, when we all change it's a revolution.”

This is a time for financial revolution, this move of demonetization will boost digital transactions. Demonetization can be seen as building a bridge to digital nation. Strong

infrastructure is the foundation of making a digi-India. The government, through a number of regulatory interventions and path breaking reforms, has significantly eliminated bottlenecks to propel the financial sector to a new growth trajectory. The sector has a number of forward and backward industry linkages, so it will result in the development of nation. Demonetization will lower gaps between haves and have nots, create increased job opportunities and will contribute to economic growth in the long run. This is also true that in this difficult time, only online players with deep pockets will survive. By the time everything gets back to normal, it would have done irreversible damage. The other way of looking things is to stay organized. But most importantly it should not result in survival of the richest and sufferings to the poor. **“Recall the face of the poorest and weakest man you have seen, and ask yourself if this step you contemplate is going to be any use to him,” Mahatma Gandhi.** The present study shows the impact of Demonetization on Indian economy’s different sectors. GDP of Country slightly decreases as compare with the previous year but we cannot say it will be same in future also. —This intervention is a one-time draining of this current stock of black money but unless the root causes of corruption are removed, corruption will continue. It is sort of like a dialysis, more of a short term cleaning up than a solution of the problem. It needs to be repeated periodically. After study of Demonetization following questions raised for the year 2017. 1) What was the impact of Demonetization in 2017 on Indian business sector? 2) What could be the next step of Government after Demonetization? 3) What will be the impact of Demonetization on GDP in short term and long term? 4) To what extent the step of Demonetization has curb issues like black money, Corruption, fake Currency and Terrorism? 5) How this step will affect the employment generation opportunities?

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Impact of Demonetization on Indian Economy

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Abstract

Indian government has taken a bold decision on note ban on 08/11/2016. Central government was a judicious, well-thought out and well-implemented step, and whether it would really eradicate all the existing black money. Here I have utilized the opinions of great expert on economics, financial economist and intellectual politicians. This study will help us to know about the positive and negative impact of note ban decision taken by Indian government. This study is purely based on secondary data, which is collected from news papers, magazines, websites from internet, some useful books related to topic etc

Keywords: *Indian government, note ban, demonetization, cashless transactions.*

Introduction

Demonetization is the act of changing the existing currency in another form. The old units should be retired and replaced by new currency. In other words demonetization means either introducing new notes or coins of the same currency or fully replacing the old currency with new currency. There is a one important thing exist on economics, which is remonetisation,

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in which forms of payment is restored as legal tender. There are so many reasons, why governments demonetized their nation's currency. Some reasons are like resisting inflation, resist corruption, and discourage a cash system in the country. In November 2016, The Indian government has taken a bold step to demonetize the 500 and 1000 Rs (fully ban). Currency notes, these two biggest denominated notes accounted 86% of the currency supply. The government's main objectives of note ban is, to eradicate counterfeit currency, resist tax evasion, destroy the black money, and terrorist financing activities, and to encourage the country towards the cashless economy. This decision taken by government is for welfare of the nation, but so many questions comes in mind that, would note ban decision actually eradicate the black money, if does then at what extent black money will come out. What should be the impact of this decision on Indian economy? Would Indian economy be prosperous or would be poor.

Objectives of the study

- 1) To know about actual present outcomes of the note banned decision.
- 2) To know the potential of the note ban decision.
- 3) To estimate the consequences for future of the note ban decision.
- 4) To know the impact of note ban decision on the Indian economy.

Scope of the study

This study will helpful for the citizens of India, Indian government, businessman and the Indian customers. Through this study government will be able to know about the future conditions of the economy. This study will help to the government for policy making to the betterment of the economy. This study will also helpful for the Indian citizen because they would be able to know the present and future condition of the economy and they can take rational decision on their income and expenditure. Any businessman can also take the wise decision so that he will be able to generate more revenue and can earn the profit in the actual market scenario. Finally everybody would be able to know the impact of note banned decision on Indian economy as well as Indian markets.

Data Collection

Secondary data has used for the study. Secondary data is collected from library, text books, and journals, articles from news papers and from relevant websites available on internet.

Measurement

Based on situation specific scenarios, expert's opinions, and use of internet for information search.

Experts and Economists views about demonetization in India.

Dr. Manmohan Singh (Former Prime Minister; eminent economist; former RBI governor) According to Indian express, the former prime minister, RBI governor, and economist Dr. Manmohan Singh said in Rajya Sabha that this demonetization is organized loot. In his speech he said that, the way the scheme has been implemented will harm the agricultural sector in India, it will also harm the small scale industry and informal sectors of the economy. He also said that India's GDP can falls about 2 percentage point as a result of this note banned policy. Cooperative banks which serves the rural areas are non functional and has been prevented from cash. Former prime minister also said that this note banned policy is a monumental mismanagement.

Arvind Virmani (Leading economist; Former India's representative at IMF; Former Chief Economic Adviser, GOI) According to arvind virmani demonetization is a useful technique to solve the problem of black money, but he also said that it need the deeper study to check the effectiveness of demonetization. Immediate effects of demonetization are negative impact in retail trade in goods and services. Currency for everyday transaction has to be replace soon.

Kaushik Basu (Leading economist; Senior VicePresident and Chief Economist at The World Bank) According to Indian express, Mr. .Kaushik Basu said that government of India made policy that any person who deposits money beyond the limit of 250000, have to pay huge penalty. This policy created a new black market, in which large amount of illicit cash broken in to smaller parts and deposited by the members of team; which is a legal way of illegal activity. Mr., Basu said this move is hurting innocent people who has no illegal money but they have built up cash reserve over a long period of time.

Arun Jaitley (Current Finance Minister of India; Senior Advocate, Delhi High Court) According to Indain Express Mr. Arun Jaitley gives his opinion that the demonetization is good for economy, Indian banks were facing NPA problem since last many years, now banks will have more money to lend for many sectors of the economy.

Surjit Bhalla (Chairman, Oxus Investments, a Delhi-based economic research/advisory firm; Former Professor at Delhi School of Economics; previously worked at

the World Bank) According to Mr. Surjeet Bhalla BJP government take a Courageous step, and the credit goes to our Prime Minister Mr. Narendra Modi. If this step would be successful then it will be biggest reform in india. This policy will silently create the money for the economy.

Demonetization in India:

1946: Rs1,000, Rs5,000, and Rs10,000 notes were taken out of circulation in January 1946. The Rs10,000 notes were the largest currency denomination ever printed by the Reserve Bank of India, introduced for the first time in 1938. All three notes were reintroduced in 1954

Historically, previous Indian governments had demonetized bank notes. In January 1946, banknotes of Rs1,000, Rs5,000, and Rs10,000 notes were taken out of circulation. The Rs10,000 notes were the largest currency denomination ever printed by the Reserve Bank of India, introduced for the first time in 1938.

In the year 1945 all three notes were reintroduced.

In 1977 Wanchoo committee (set up in 1970s), a direct tax inquiry committee, suggested demonetization as a measure to unearth and counter the spread of black money.

On 28 October 2016 the total banknotes in circulation in India was Rs.17.77 trillion (US\$260 billion). In terms of value, the annual report of Reserve Bank of India (RBI) of 31 March 2016 stated that total bank notes in circulation valued to Rs.16.42 trillion (US\$240 billion) of which nearly 86% (around Rs.14.18 trillion (US\$210 billion)) were Rs.500 and Rs.1,000 banknotes. They were taken out of circulation from 2016.

Some other aspects to know the effectiveness of demonetization

1. Why India demonetized only 500 and 1000 currency notes

According to RBI's Report the 500 rupees and 1000 rupees notes approximately 86 % value in the circulation. So government decides to remove this huge amount of money from the market. And the maximum Fake currency notes exist in the form of 500 and 1000.

2. Impact of demonetization on Indian economy

The demonetization somehow reduced consumption activity in economy of India. But it increased the money in banks. At the time of demonetization the consumption had reduced and the market become slowdown, but the increase in the deposition in the bank would be better for economy in future.

3. Impact of demonetization on Indian financial market

After demonetization Indian financial market has been followed just like secular falling trend. Nifty 50 fell approx 6.3% and S&P BSE Sensex Fell 5.9% from 8 November to 22 November.

4. Impact of demonetization on next financial year (Hindustan times, 2 feb.2017)

According to pranab sen (India's First Chief Statistician) said that, the targeted economic growth rates about 7.5% presented by Indian government for upcoming financial year is over optimistic. He said that the decision about ban on currency note has adversely affected the industrial sector. It affected the IT sector which is 45% of the India's Gross Domestic Product, and approximately 80% of India's employment depends upon IT sector.

5. Impact of note ban on Auto Assets Backed Loan (Business standard,13 feb 2017)

According to Moddy's investor service demonetization has negatively impacted on Indian auto-assets backed loans in the short term and this will continue till the march end.

6. Impact of demonetization on Real estate (Business standard, 12 Feb. 2017)

During November December 2016, the monthly average housing sales fell about 40% in the top nine cities like Gurgaon, Ahmadabaad,Kolkata, Chennai, Hydrabaad, Bengaluru, Pune, Mumbai and Noida. Before demonetization the monthly average house sales was 19000 units in july month and 18000 units in October month.

The monthly average sales were reduced drastically during November-December months by 40% and 49% respectively. The government had announced the demonetization move on November 8, raising hopes of sharp fall in prices in property market, especially secondary or resale segment. Starting of third quarter ,October month showing best

performance, but November and December both negatively impacted by the demonetisation , 50% of the total sales in the third quarter contributed by October month. The real estate developers were focusing their efforts to attract customers by offering additional free benefits like jewellery, electronic items, automobiles, holiday package and appliances on the purchase of housing units. Builders also offered the price guarantee, rental assurance, and buyback schemes to bring confidence in the sector.

7. Impact of demonetization on FMCG industry (Economicstimes 24 dec. 2016)

FMCC industry had gone down by 1-1.5% or Rs 3,840 crore in November, compared to October. The purchase in November had gone down by 6.4% compared to October. Purchase of personal care items such as toilet soaps, toothpaste and shampoo had seen the greatest fall by retailers. According to consumer point of view, one out of five housewives had reduced spending by 50% or more. They had cut spends across categories for impulse categories such as biscuits, salty snacks compared to everyday essentials like atta, rice, pulse, sugar.

8. Demonetization will help to fight with black money and reduce corruption.

(dnaindia 13 dec.2016) According to Adi Godrej demonetization may had considerable negative effect at the earlier stage but after some days the situation had improved and it will have a positive impact on the economy. The Chairman of the Godrej group also said that it would help to fight with black money and it will also reduce corruption. He further said there is a fair amount of cash has come into the economy and more is being coming regularly basis, and this is good sign for the economy.

9. Positive effects of demonetization may not be long term. (Indianexpress, 22

Nov.2016) According to Fitch Rating the positive effects of demonetization of Rs 500 and 1,000 notes are unlikely to be of long term nature to support banks' credit profile. The rating agency, which rediscovered its negative outlook on the Indian banking sector. The demonetization drive has the potential to raise government revenue and encourage bank lending. The demonetization move could boost government revenue to the extent that helps to move economic activity from the informal to the formal sector. The positive impact on funding conditions will depend on deposits remaining in banks

beyond the next few months, and there is nothing to prevent them being withdrawn again.

Guidelines by the Government as to what citizens could do post this decision

- Deposit old notes of RS. 500 or Rs. 1000 in bank or post office accounts from 10th November till 30th December, 2016 without any limit. There will be a limit on withdrawal:
- Rs. 10,000 per day and Rs. 20, 000 per week. This limit will be increased in the coming days. Exchange old notes of Rs. 500 or Rs. 1000 at any bank, head post office or sub post office while showing ID proof. The limit for this is Rs. 4000 up to 24th November:
- No restriction of any kind on non-cash payments by cheques, demand drafts, debit or credit cards and electronic fund transfer:
- On 9th November and in some places on 10th November also ATMs will not work. In the first few days, there will be a limit of Rs.2000 per day per card. This will be raised to Rs.4000 later.

Conclusion

Demonetization in India is a great effort taken by Indian government to combat with black money and corruption. It is a bold decision taken by government. The main purpose of demonetization is eradicating the black money and reduces the corruption. Government of India has become success to some extent. Most of the black money has been crushed. Amount of cash liquidity increased in the bank day by day. And anybody knows if the bank has more deposits then bank become stronger. The country in which bank is strong then that county is more financially strong. In future banks will able to do more and more loans to the individual and to the industrial sectors so that production will grow in our country, employment will be generate, and our country can develop at very fast rate. But this is only future perfections; upcoming few months will show the actual economic condition of our country.

Although Demonetization has create so many hurdles for the citizens of India. Citizens of India faced so many problems due to the demonetization drive; they faced queue problems in the banks and ATM'S for depositing and withdrawing money. Citizens of India faced problem of less consumption of goods due to the lack of cash liquidity. Several businesses

disrupted due the lack of liquidity, business owners as well as consumer faced so many problems.

When government took this bold decision about the demonetization in India, government didn't know that Indian citizen will have to face this kind of problem for a long time. But government has given so many remedies to the citizens of India for time to time. On the other hand, Indian financial market, real estate market, FMCG Sector, Auto assets backed loans etc. all are declined for a short time.

The demonetization of the highest denomination note undertaken by the government is a big shock to the Indian. The demonetization is taken for several measures such as tax evasion, counterfeit currency and funding of illegal activities. Some people are depositing currency notes in excess of specified limits directly into bank accounts has showed the unaccounted income, subject to higher tax and other penalties. Alternative payment methods, such as e-wallets, online transactions using e-banking, debit and credit card usage have been increased and this will shift an efficient cashless infrastructure.

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Impact of Demonetization on Indian Economy-during the period of Muhammad-Bin-Tughlak

Dr. Shakuntala N⁴⁶

Ghiuyas-ud-Din-Tughluq was succeeded by the son Prince Juna Khan who took up the title of Muhammad Tughluq. Muhammad-Bin-Tughalk succeeded his father Ghayasuddin to the throne in 1325. Juna Khan was his other name. We are fortunate in having a lot of authentic and intresting material about his reign. Prince Juna Khan was the eldest son of Ghiyas-ud-DinTughluq. He was brought up as a soldier and he distinguished himself in the same. He was a precocious child. He was appointed the Master of the Horse of Khusro Shah. However, Juna Khan started an agitation Khusro Shah., his patron. He helped his father in overthrowing Khusro Shah. When his father became the Emperor in 1320. Prince Juna Khan was appointed the heir-apparent and was also given the title of Ulugh Khan. He seated himself on the throne soon after the death of his father in 1325. For 40 days, he remained at Tughluqabad after which he marched to the city of Delhi and put himself in the Red Palace of Balban.

He was intrested in going military expeditions, and even during his father's time, he had led an expedition on Worrangal in 1322 and 1323. His first attempt was a failure. In his second attempt he besieged Worrangal, captured Prataparudra and brought him to delhi. The Kaktiya kingdopm fell into the hands of the Delhi sultan. On his way back from Worrangal, he aoopied Orissa. His empire extended from Punjab to Dwarasamudra in Karnataka and from Bengal to Sindh. The states of Jaipur, Sourastra as well as Madhurai were out side his empire. Thus M.B. Tughlak's empire was 1500 mile long(south-north) and 2000 mile wide.

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His empire included 12 provinces, they are Punjab, Sindh, Agra, Awadha, Bihr, Bengal, Malwa Dqulathabad, Worrangal, Telingana, Orissa, Dwarasamudra.

According to Ziaudin Barani, he was the most peculiar prince of the day. His memory was phenomenal. He was proficient in logic., mathematics, astronomy, religion and Ghayauddin had declared him as his heir even during his life time. Hence he came to the throne without any obstacles. He was the greatest scholar that ever sat on the Delhi throne. His personality wielded its influence on the great scholars. R.C. Majumdar is of the opinion that “Muhammd-bin-Tughlak is indeed an extraordinary perspnality and to determine his place in history is a difficult task. That is no doubt he was one of the most learned and accomplished scholars of his time. In his private life the sultan was free from the prevailing vices of the age, and his habits were simple. But the Sultan lacked practical judgement and common sense and rather obsessed with his theoretical knowledge indulged in lofty theoretical knowledge indulged in lofty theories and visionary projects”.

Besides being a great scholar, Muhammad-Bin-Tughalk was also a good administrator. He had lofty aims and he tried them. But, they did not yield him good results. Instead, they blackened his name. To wht extent he was responsible for the failure of his projects is subjected to criticism. His policies were well meaning though looked quixotic. Among them his Reforms in Coinage was very advanced experiment in medieval India.

Reforms in Coinage/Demonetization/The Currenecy Experiment

In the Field of Coinage, Muhammad-Bin-Tughalk has a unique place. The reforms he introduced mark a milestone in the history of coins. Dr. Eswari Prasad and Edward Thomas have rightly called him the “prince of moneyers”. Edward Thomas points out that one of the earliest acts of his reign was to remodel the coinage to re-adjust its divisions to the altered values of the precious metals and to originate new and more exact representative of the subordinate circulation”.

Muhammad-Bin-Tughalk issued various types of coins and fixed the value of gold and silver coins which were legal tenders and then introduced copper coins. This was his famous token currency system. A new gold coin weighing 200 grains and called Dinar by Ibn Batuta,

was issued by Muhammad Tughluq. He revived the adali coin containing 140 grains. New coins had been introduced or a huge army and chronic famines had drained away the treasury. Besides the king was generously helpful.

In 1329 and 1330 the Sultan issued a token currency in copper coins. There were already examples of such a currency in China and Persia. Kublai Khan, the Mongol Emperor of China, had introduced a paper currency in China towards the close of the 13th century. Gai Khatu, the ruler of Persia, made a similar experiment in 1294 A.D. With these examples before him. So Muhammad Tughluq issued a decree proclaiming that in all transactions, copper tokens should be accepted as legal tender like gold and silver coins. Once again the king ordered the citizens to return the copper coins and receive gold and silver coins. He had introduced the copper coins only to tide over the temporary financial crisis. He withdraw them and once again issued gold coins.

Barani tells us that the experiment was due to two causes. The first cause was the need of money to maintain the great army of conquest numbering 3,70,000. The second cause was the deficiency in the treasury caused by the lavish gifts made by the Sultan. Another probable cause can be the relative scarcity of silver in the market.

Effects/Impact of Demonetization

- This change was probably due to a “fall in the relative value of gold to silver, the imperial treasury having been replenished by large quantities of the former metal as a result of the campaigns of the Deccan.”
- He could not have done so if the government was insolvent.
- At this crisis the copper coins served their purpose. He issued orders that they should be used in the place of gold and silver coins. There was scarcity of gold and silver.
- Copper coins became the legal tender in the Market.
- The government did not have the sole right to mint coins.
- Who ever paid taxes could mint coins in private. So almost every gold smiths house became a mint.
- Counterfeit coins upset the market rates and there was no special arrangement to detect the difference between the coins issued from the mint and the hand made coins by experts. Hence, his fiscal policy was a failure.

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- Trade and commerce both at home and abroad suffered. Because foreign merchants would not accept coins at their normal value.
 - Many exploited the situation, returned the counterfeit copper coins they had minted and received genuine gold and silver coins. Thus the royal treasuries were flooded with copper coins. It is wrong to assume that his government had become an insolvent one.
 - Then receiving back the copper coins, he fell a prey to the tricks played upon him by his own people.
 - According to Barani, “This edict turned the house of every Hindu into a mint and the Indians of the provinces coined lakhs and crores of copper coins, with which they paid their tribute and bought horses and arms and fine things of all sorts.
 - The Rais the village headmen and land-owners grew rich on these copper coins, but the state was impoverished. In no long time distant countries would only the copper Tanka as metal, and in places.
 - where reverence for the edict prevailed the gold Tanka rose to be worth a 100 copper Tankas.
 - Every goldsmith struck copper coins in his workshop and the treasury was crammed with them. They fell so low that they were no more valuable than pebbles or potsherds.
 - Trade being disrupted, the Sultan repealed his edict and in great wrath proclaimed that all the copper coins should be redeemed in gold or silver at the treasury. Thousands brought them for exchange and their heaps rose up in Tughluqabad like mountains.”

Reasons of Failure the Token Currency System.

- According to Dr. Ishwari PrasadMany reasons have been given for the failure of this monetary experiment of Muhammad Tughluq. It is pointed out that this carefully organised measure failed, because it was in advance of the time and the people could not realise its real importance.
- To the people at large in those days, brass was brass and copper was cause of the failure of the experiment was that the sultan could not make the issue of the copper coins a monopoly of the State.
- To Quote Edward Thomas, There was no special machinery to mark the difference of the fabric of the royal mint and the handiwork of a moderately skilled artisan.

- Unlike the precautions taken to prevent the imitation of the Chinese paper notes, there was positively no check upon the authenticity of the copper tokens and no limits to the power of the production by the masses at large”.
- The contention of Elphinstone was that the failure of the token currency was due to the insolvency of the king and the instability of his government. This contention has been found to be groundless as the Sultan successfully withdrew all coins by paying gold and silver coins for the copper tokens. Had the Sultan been insolvent, he would not have been able to give gold and silver coins in exchange.
- Brown attributed this currency muddle to the short age in the supply of the silver in the world during the 14th century. There was a similar scarcity of coins in England in the reign of Edward III about the year 1335. Similar difficulties were experienced in other countries.
- In addition to the forging of token coins, the people started hoarding silver and made all their purchases in token currency. The result was that a considerable quantity of silver was kept out of circulation. The payment of land revenue was made in the spurious token currency.
- The Khuts, Muqaddams and Chaudhris became powerful and defiant. Rebellious elements purchased weapons and war material with the spurious token currency. Foreign merchants stopped bringing their wares to India and imports received a serious set-back.

Prof. Mohd. Habib gives a different and more plausible explanation in these words. “The mint had a special type of bronze alloy for the coins, which could be easily distinguished on the touchstone but the secret of the proportion of the metals in the bronze coins could not be discovered by the goldsmiths. When people took gold and silver coins in those days, they had the coins weighed (to make allowance for clipping) and also tested on the touchstone for purity of metal. The Sultan expected the public to follow the same practice in regard to his token coins. But in this matter the public failed him. Consequently, many forged coins became current with the treasury coins; and as the forged coins got mixed and the government was unable to prevent this, more and more coins were forged. A bronze coin would be at least worth its weight in bronze-i.e..., about 50 bronze coins would be normally equal to one silver Tank.

But forging the bronze coins was an offence. So a forged bronze coin may meet any fate, for a new element-fear of punishment, also entered into the determination of its value. In the distant provinces it circulated at one-half of its official value in terms of the silver Tanka; in the capital people would be afraid of being found in possession of forged bronze coins; they would throw them away or keep them in order to melt them into bronze vessels later on.

The whole operation got beyond the control of the government. Too many forged coins got into circulation and the failure of the experiment caused havoc in the market. It was not possible to punish those in actual possession of the forged bronze coins, because they were innocent. In fact, strange to say, nobody was punished. It was understood from the very beginning that the treasury would redeem every bronze coin it had issued. The Sultan now ordered this to be done. People brought to the treasury the bronze coins they had. The treasury redeemed the bronze coins it had issued as a matter of treasury conscience; it rejected the false coins but did not punish their owners because they were 'bonafide' possessors. Heaps of these rejected bronze coins, which were probably melted later on, could be seen at Tughluqabad. But forged bronze coins not brought to the treasury continued to circulate at their metallic value, specially in the provinces, and have survived to our days."

About the token currency, Sir Wolseley Haig says that Mohd Tughluq understood the principles of a managed currency and he did not believe as is suggested by some historians ignorant of those principles, that his command could raise the value of the baser to that of the precious metal. Success might have been possible if the measure had been efficiently supervised but unfortunately, no steps were taken to prevent fraud and hence it failed.

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Impact of Demonetization on Various Sectors and the Economy

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Abstract

Prime Minister Narendra Modi Has announced a war against block money and corruption in an emboldened move he declared That the 500 and 1000 Rupees notes will no longer be legal tender from midnight 8th November 2016 . The RBI will issue new chip based Rs 500 and Rs 2000 notes which will be placed in circulation from 10th November 2016. Notes of 100, 50, 20, 10, 5, 2 and 1 Rupees will remain legal tender and will remain unfazed by decision. This measure has been taken by the PM in attempt to address The resolve against corruption, block money, terrorism and counterfeit notes. This move is expected to cleanse the formal economic system and discard black money at the same time. One of the reasons that prompted the government to demonetize Rs. 500 and Rs. 1000 notes is that their circulation was not in line with the economic growth. As per the Finance Ministry during 2011-2016 periods. The circulation of all notes grew 40% but the circulation of Rs 500 and Rs 1000 notes went up by 76% and 109% respectively. Relatively speaking the economy has grow only by 30% which is way below the money circulation. At an aggregate level this move will significantly eliminate the existing stock of block money. Fake currency and will benefit the economy in the medium to long-run but the question as to how the creation of black money in the future will be prevented still remains un answered.

Introduction

The night of November 8 prime minister Narendra Mondhi announced the demonetization to Rs. 1000 notes in order to need out black money from the country sending the common man into a tizzy. Immediately queues at bank and ATMs swelled up even as demonetization became the major topic of concern as well as discussion. Facing support and condemnation in equal amounts. The measure of demonetization is not a new concept for the world their were other nations too that have tried changing their currency in the past. Let us take a look on some of these countries.

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1. **Ghana** – In 1982 Ghana rolled out the decision to demonetize their 50 cedi currency notes in order to monitor money laundering and corruption. The change was not well come warmly creating chaos across the country and family resulted in a move back to physical assets and forging currency.
2. **Nigera** – Nigeria’s economy collapsed after the 1984 demonetization move that did bit goas planned. The military government of then president Mahammadu Buhari introduced different coloured notes to invalidate their old currency in order to fight black money
3. **Mayanmar** – Around 80% of Mayanmar’s currency was demonetized in 1987 by the military to curb black money but the move resulted in a lot of protests and the country witnessed several killings.
4. **Soviet union** – Under the Governance of Mikhail Gorbachev in 1991, the Soviet union demonetized the higher denominations of ruble bills. The 50s and 100s the move did not go well and resulted in takeover of mikhail’s Leadership with in eight months of the plan.
5. **North Korea** – North Korea faced demonetization of their currency in 2010. Which led to major for basics.
6. **Zimbabwe** – Zimbabwe once had hundred trillion dollar note which was demonetized and was exchanged in a mocking way dropping trillion dollars to \$0.5 dollar.

Objectives of the Study

- To know the consequences of demonetization
- The main objective of this paper is to study the impact of demonetization on Indian Economy and system.

Data Collection

The paper is based on the secondary data. The secondary date was collected from various. Published sources like magazines, reports, new papers journals etc.

Effects on Parallel economy : cash economy to witness contraction

The currency of the aforementioned denominations constitutes around 86% of the total value of the currency in circulation. It is expected to remove black money from the economy as they will be blacked considering the holders will not be in a position to deposit the same in the banks temporarily half the circulation of large volumes of counterfeit currency and curb the funding for anit-social elements like smuggling terrorism, espionage etc.

Effect on GDP : Downward Bias to GDP Growth

The sudden decline in money supply and simultaneous increase in bank deposits is going to adversely impact consumption demand in the economy in the short term. This coupled with the adverse impact on real estate and informal sector may lead to lowering of GDP growth.

The GDP formation could be impacted by this measure. With a reduction in the consumption demand. However with the recent rise in festivals, demand is expected to offset this fall in an overall impact. More over this expected impact on GDP may not be significant as some of this demand will only be deferred and will re-enter the stream once the cash situation becomes normal

Lower Money Supply has a Deflationary Effect

With the older 500 and 1000 Rupees notes being Scrapped. Until the new 500 and 2000 Rupees notes get widely circulated in the market. Money supply is expected to be reduced in the short run Reduced money supply will lead to deflation or contraction in demand or a mix of both will vary from sector to sector depending on the nature of goods and services. To the extent that black money does not re-enter the system reverses. Money and eventually. Money supply will decrease permanently. However gradually as the new notes get circulated in the market and the mis match gets corrected money supply will pick up speed.

Impact on Bond Market

Surge in deposits will create more demand for government bonds and other high rated bonds in a situation of tepid demands for credit, leading to lower bond yields especially in the shorter end of the curve. At the same time a reduction in leakages in systemic liquidity will reduce the scope for open market operation purchases in coming days. We believe that the RBI will continue sterilize excess liquidity from the banking system to keep the short term rates aligned with the policy rate.

Credit Impact across Sectors

Impact of this policy measure will flow to the economy mainly through the Real Estate Sector. Which has strong linkages with sectors such as cement and steel and which will turn credit negative in the short run. A significant impact in the short run will be on the daily/weekly wage employment multipliers. The Key segments of the economy where cash transactions play a vital role are real estate. Gold and the informal sectors which may face short term contraction. With more money coming into the banking ambit deposit growth is likely to

improve and positively impact the savings rate. The medium to long term gains are likely out weigh the short term pains.

Effect on Banks

As directed by the government the 500 and 100 Rupees notes which now cease to be legal tender are to be deposited or exchanged in banks. This will automatically lead to more amounts being deposited in saving and current accounts of commercial banks this in turn will enhance the liquidity position of the banks which will be later utilized further for lending purposes how ever to the extent that households have held on to these funds for emergency purposes there are expected to be withdrawals at the second stage.

Effect on online Transaction and alternative modes of payment

With cash transactions facing a reduction alternative forms of payment will see a surge in demand. Digital transaction systems. E wallets and apps, online transactions, using E banking usage of plastic money etc will definitely see substantial increases in demand. This should eventually lead to strengthening of such systems and the infrastructures required .

Bank Deposit Rates to Soften.

We can expect a large amount of cash in circulation to be brought within the purview of the formal banking system by way of deposits. This is structurally positive for banks as parts of this cash gets deposited as current account and savings account deposits. Reducing banks dependence on higher cost borrowing. Deposit medium term due to t he current tepid demand for credit subsequently pushing deposit rates lower.

Investment in Financial Products

Investors in the short term will now believe that cash is not the safest asset and there is little point in hoarding it. This will shift them from physical asset to financial assets where returns are also higher.

Agreement cost of Real Estate may Rise

We expect that the real estate demand from end users is unlikely to be impacted. Since a majority of them are backed by funding from bank loads. Demand from investor for real estate however may come down since in some cases investors prefer cash transactions. If the proportion of earlier transactions in the real estate sector which were allegedly done through partial cash payment reduces the registered prices for real estate will group. We expect the supply of real estate in the secondary market. Which is strongly ramoured to have a large cash

component involved to suffer in the short term which may in turn improve demand for residential real estate in the primary market.

Used Car Sales May Fall

Sales of vehicles in the second hand market for original equipment manufacturers Will get impacted which will not be able to dispose of their old vehicles easily.

Demand for Gems and Jewelry to decline

We can expect the demand for gems and jewellery to decline in the next to three quarters. This would result in a weakening in the credit profile of industry players due to the high working capital cycles and high operating leverage. The unorganized segment will be hit particularly hard. Given the large proportion of unaccounted inventory and high proportion of cash sales. Over the medium-term the organized industry players will benefit at the cost of the unorganized players. Gold imports through the unofficial channels are likely to reduce. There will be no significant impact on jewellery exporters because it is mostly on organized market and sales are against invoice.

Private Education Institutions

Since private Education Institutions take huge amounts of donations in cash which is 40% to 50% we expect that this move will impact the private education institutions receipts.

Hospitals And Medical Colleges

Again as Medical institutions like hospital and colleges take huge amounts of donations in cash which are more than 100% of fee we can keep on expecting that this move will impact not only the admissions but also the receipts.

Political Parties

Elections political parties are major sources of black money transactions. Most of the funding of national political parties is in cash which is 40% to 50% to 60%. The sources of more than 90% of such funds are never disclosed candidates as well as their donors even the political parties will feel cash strapped. An assembly seat candidate spent on an average Rs. 4-5 Crores on campaigning that is likely to go down drastically.

This is going to cause huge craters on their funding and will reduce their funds drastically. It is going to deal a major blow to political parties fattening their coffers with cash contribution in anticipation of high stakes electoral battles in up, Punjab, Uttarkhand, Goa and Manipur. This stroke is bound to leave big players hamstrung and suddenly resource-poor.

Effect on Various Economic Entities

The key segments of the economy where cash transactions play a vital role are real estate / Construction, Gold and in formal sectors as such. The role of cash transactions in case of real estate and Gold is mostly dubious. However in case of the informal sectors it is the lifeline.

Which cash transaction lowering in the short run until the new notes are naturalized widely into circulation. Certain sections of the society could face short term disruptions in facilitation of their transactions these sections are

- Agriculture and related sectors
- Small traders
- SME
- Services sectors
- Households
- Professionals like doctors, car pernters
- Retails outlets
- Retails outlets

Our View

- Since most of the rural economy is based on cash. It's going to impact the Rural Economy.
- Sectors with a sizeable magnitude of cash transaction jewellery, high-end retail. White Golds and travels and tourism are expected to adversely affect
- It will push the economy because of flow of more money into the banking system.
- In the long term the economy will benefit from the reduction of the black money which will lead to higher tax collection better business environment less corruption and transparency. It will improve the situation of fiscal deficit of the country and hence reduce the fiscal deficit. There are so many effects on Indian Economy in demagnetization

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Mining Labours and Demonetisation

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Abstract

“Although there may be long-term benefits... and felt there were potentially better alternatives to achieve the main goals” – Raghuram Rajan¹

“Only an authoritarian government can calmly cause such misery to the people ... inconvenience and indignity in trying to get their own money back” – Amartya Sen²

“Puzzled by demonetisation and that it was a blunt instrument to tackle the problem of black money and corruption.....did not happen, which is a good thing” – Paul Krugman³

The problem of black money and counterfeit existed in all economies of the world, whether it is developed or developing. Numbers of measures were implemented by the governments to curb the black money, among this Demonetisation is the important one. On the backdrop of black money, fake currency, tax evasion, etc., Government of India stripped the legal tender money of higher denomination on midnight of November 8, 2016 i.e., Rs.500 and 1000 which accounted up to 86% in circulation. This act of demonetisation sends tremors all over the country and all classes of society, some of the politicians termed it as financial emergency and some of the economists termed it as authoritarian move. The author tries to find out impact of demonetisation on mining labours and working class based on the secondary data collected from the Economists Views and Analysis from News Papers, Working Papers, Television Channels, Magazines, expert opinions etc.

Key Words: Black Money, Counterfeit, Terrorism, Legal Tender, Labour, Authoritarian.

JEL Classification: E24, E31, E51, E63.

Introduction

On the 8th November, 2016 in a shocking move suddenly our Prime Minister Shri Narendra Modi appeared and addressed the nation, talked about the circumstances leads to the demonetisation and finally announced the stripping of the legal tender status of Rs.500 and 1000 notes also introduction of new notes of Rs. 500 and 2000. It has far reaching effects on the Indian economy. It affects parallel economy, money supply, demand, prices, agriculture sector, industrial sector, service sector, Gross Domestic Product, Banking business, day to day

life of common man and labour as well. This is not the first incidence of demonetisation in India, it was happened in the year of 1948 (Rs.1000/- and 10000/-) and 1978 (Rs.1000/-, 5000/- and 10000/-) as well^{4,5}. In this paper I am going to analyse impact of demonetisation on Indian Economy in general and labour community in the mining sector in particular on the basis of secondary data collected from the News Papers, Working Papers, Research Papers and Magazine Articles etc.

Objectives of the Demonetisation

The major objectives of demonetisation were excerpted from the speech of the Prime Minister. It is the composition of the Monetary Policy and Fiscal Policy.

1. Fake Indian Currency Notes(FICN) pumped by the terrorists was increased at alarming rate
2. To stop the terror funding all over India
3. Tax evasion is quite common in the Indian economy. Demonetisation aims to put a break on the tax evasion.
4. Unearth black money and improve the revenue of the government.
5. To put a break on the illegal and unethical business activities.⁶

Impact of Demonetisation on Indian Economy

Economists' are divided among the impact of the demonetisation. Some of them are argued in favour of demonetisation and some of them against. Rapid growing Indian Economy, ground to a halt, hits money supply. All Economic Indicators were down and industries shut down their work due to the shortage on currency. After the demonetisation consumption comes down, due to this production cut down, due to reduction in production capacity employment also hit and further it leads to slow pace of growth and cut in the tax revenue. Agricultural sector also hit by the demonetisation.

In the House of Rajya Sabha Former Prime Minister **Manmohan Singh** said that "The 'monumental mismanagement', demonetisation of high value currency notes has caused great distress to the common man of the country. He remarked that the GDP of the country could shrink by 2 percentage-points due to the way it has been implemented.....find practical, pragmatic ways and means to relieve the distress of the people who happen to be a great majority. After all, 90 per cent of our people work in the informal sector, 55 per cent of our workers in agriculture are reeling in distress".⁷

Well known economist **Kaushik Basu** also opined in this way, according to him “Demonetization was ostensibly implemented to combat corruption, terrorism financing and inflation. But it was poorly designed, with scant attention paid to the laws of the market, and it is likely to fail. So far its effects have been disastrous for the middle- and lower-middle classes, as well as the poor. And the worst may be yet to come”⁸

The leading economists **Jagdish Bhagwati, Pravin Krishna, Suresh Sundaresan** are opened that, “This is a courageous and substantive economic reform that, despite the significant transition costs, has the potential to generate large future benefits.”⁹

The NITI Ayoga member **Bibek Debroy** argued that “The gains would not be limited to the amount of black money that would be rendered useless, but also extend to government’s massive revenue generation..... help the government spend massive amount of money on building public goods and making more public services available.”¹⁰

Impact on the labours in the mining Industry

Before going to the study of effect of demonetisation, I am going to highlight the Fifth Annual Employment and Unemployment Survey (2015-16)¹¹. Only 20% have bank accounts that who were receiving salary less than 10000 or less. The worst affect community in the demonetization was labours and daily wage earners. In India most of the industries paid the wages in the cash form, after the demonetisation most of the industrialists paid advance wages to the labours. It adds agony to the problem facing labour. In the view of Rajkumar and Shetty (2016) “Economic consequences of the demonetisation measure have many dimensions. Short-term can be further divided into two parts: disruptions in the lives and day-to-day activities of people, and the shock leading to contractions in consumption, trading and household incomes. Savings are unlikely to be affected as currency holdings will be converted into bank deposits, though no doubt such actions will have medium-term implications, particularly on interest rates”¹². Though the economists expressing different views on demonetisation, the study not going to analyse the economic impact of demonetisation and restricted to the impact on the labour class.

The process of demonetisation not only negative effects, it has positive impacts. I am talking about the negative impacts of the demonetisation; now on the side of positives, most importantly, all interest rates come down to help the labour class. Again and again we are all

talking about the Financial Inclusion, the process of demonetisation helps to include all the strata of the society those who were excluded from the financial services.

Here are the important implications of the demonetisation on the labour class on the basis of the news paper reports and research studies.

- 1) **Shortage of Currency:** - First and foremost important effect of demonetization was labours cannot get wages in time because of shortage of currencies. Most of the mining industries pay their wages in cash form not in the cheque or electronic form that fact; push the labours in the distress.
- 2) **Advance Wages:** - Secondly some of the miners were disbursed the 3 to 4 months salary in advance it adds agony to the labours. They were in dilemma where to go whether the bank or work.
- 3) **Postponement of Wedding:** - The labour families which were celebrating weddings, the demonetisation crisis has hit them hard... No one was ready to accept cheques from them and they do not have enough cash to pay them. Incidents have been noted in places where newlywed labours had to stand in long queues along with their relatives, some of the them were pushed to postpone their family wedding ceremony due to cash crunch arises due to the demonetisation.
- 4) **Medical Bills:** - Labours were frustrated as they face major issues in paying hospital bills. Even after the rule of medical sector accepting the 500 & 1000 notes, this is not being the real scenario. They already have members of house to go to hospital, where do they get more members to stand in the long queues. Both priorities health and money at stake.
- 5) **Income Generation and Employment:** - Mining industry using Manual laborers and daily wage workers. Due to shortage of currency, miners were hesitated to hire labours. Due to this Income and Employment Generation hits. Daily wage earners unemployed as their employer lacks money to pay them in cash (online is not sufficient).
- 6) **Death due to Stress:** - It's been shown in several news channels that some of the labours who were not well or very weak have lost their lives due to standing in queues for long hours. But sad part is no one is ready to take responsibility of such activities.

- 7) **No Bank Accounts:** - Some of the labours had saved money in the cash form in the home; notes were put in the boxes, books and bags. They were unable to exchange notes because they don't have bank account at all.
- 8) **Where to go:** - Labours were in a quandary; they don't know where to go. Whether the work or Bank finally they push to stand in a queue and left the work.
- 9) **Change not Available:** - Some of the labours somehow get the new notes; they were unable to use it, because nobody accepts it and not giving change to him. He is not the person purchase to the amount of Rs.500 or 1000, simply he purchases only to the tune of Rs.20 or 50 or 100 only, and it adds agony.
- 10) **Day to Day Purchases:** - Labours were unable to purchase grocery and vegetables. Most of the wage earners purchasing grocery from the local merchants. Merchants were denied to give grocery without new money and stripped currency was not accepted. In addition to this most of the vegetables were purchased from the street vendors, most of the street vendors were unable to bring vegetables due to the demonetisation.
- 11) **Interest Rates:** - Due to the deposit and currency inflow to the banks, the reserves of the cash increases, that's why banks are going to lowers the interest rates which helps the labour class. He can avail credit at cheaper rate than before.
- 12) **Digitization:** - Up to demonetisation Indian labour class didn't use digital mode of payment, now they pushed to use this method.
- 13) **Financial Inclusion:** - The main motto of demonetisation was to increase the financial services base in the economy. Up to this time lower strata of the society left out from the getting benefits of financial services. The demonetisation further pushes the process of financial inclusion.

Above mentioned impacts are very few, there are more impacts in the short and long run; due to the constraint I am going limit the explanation here. The above discussion restricted to the impact on the labour class only not on the economy. When we comes to the economy it has wider implications, positive and negative as well.

Conclusion

No doubt, the Government of India's decision to strip the legal tender status of the Rs.500 and 1000 notes has far reaching effects on the economy. Already the results are coming out and most of the economic indicators are in the reversal mode, likewise, the life of the

labours pushed into the misery. I am going to quote Montek Singh Ahluwalia “Farmers, fishermen, vegetable sellers, small shopkeepers without card readers or Paytm, taxi drivers, truckers, etc., have all been affected with loss of livelihood which may be irretrievable in some cases, for example, loss of daily wages for casual labour, or lower sales for vegetable vendors”.²⁰ Though the demonetisation is the joint work of the Government of India and Reserve Bank of India, Central Government plays very important role. The labour class hurts lot due to demonetisation when compare to the other strata of the society. It may be or may not be beneficial to the economy but it gives agony to the labour class.

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Demonetization of Indian Currency – A Synaptic view

Mr. Suhas. D⁵⁰ and Dr. H N. Ramesh⁵¹

Abstract:

Demonetization is the hottest new topic in the country. Financial analysts everywhere are talking about what the long-term impacts could be while several businesses and people are caught up in the unprecedented cash crunch that has been caused. Electronic Banking is playing a crucial role in providing high-quality service to the customers. The need of creation of electronic alternative channels has been distinguished well in advance by the foreign banking organizations, which relied mainly on the outburst that was observed in the use of the internet. The benefits are many, both for the customers and for the banks. The banks that are activated on the Internet are susceptible mainly to the systematic, law part and to the reputational risk and the customers of the electronic banking channel are puzzled concerning the subject of safety of their transactions and personal data. Demonetization aims at pushing consumers towards making digital payments, thereby contributing to a cashless economy. The influence of IT on banking enables the customer to get all major operations/decisions with regard to deposits, withdrawals, and investments by just clicking a mouse on a computer or at an Automatic Teller Machine (ATM) or mobile. Direct Banking channels or alternate banking channels can be utilized by banks for acquiring, tracking and serving customers through multiple channels. An entire range of services including account opening, fund transfers third-party transfers, utility payments can be done through using direct banking channels.

Keywords – Information Technology, ATM, Direct Banking, Utility Payments

Introduction of Demonetization

Demonetization refers to an economic policy where a certain currency unit ceases to be recognized or used as a form of legal tender. In other words, a currency unit still loses its legal

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tender status as a new one comes into circulation. The government can take such decisions to stop the circulation of a denomination of notes or coins in the economy.

Demonetization can also be referred to as the process of moving people from a cash-based system to a cashless system (digital system). Keeping hard cash is a practice that is not encouraged by the government as well as financial institutions. It is easy for people to evade taxes in an economy where people mostly deal with cash. Keeping cash out of the bank also erodes the deposit base of these financial institutions and drives the cost of credits through the roof. It means that the government has to opt for foreign sources to secure funding and in the process increase the national debt. The economic impacts of which are many and severe. Moving people to a cashless system is, therefore, a favourable economic policy for many stakeholders.

Online money transactions and digital payments are not as difficult as they were before. This makes it easy for you to smartly tackle the sudden ban on old currencies. And online transactions do come with a lot of benefits. This is the right time to unleash the full potential of your debit cards. Make online payments, [apply for easy loans](#), pay all your bills and do a lot more with just a debit card.

Objectives of the Study

- To know the Impact on online Payments
- To know the Status of Electronic Payment System

Methodology

The study is based on secondary sources of data/ information. Different books, journals, newspapers and relevant websites have been consulted in order to make the study an effective one. The study attempts to examine the Cashless Payment System in India.

E-Banking

Online banking is also known as Internet banking (or) virtual banking is an electronic payment any uses with use of personal computer and a browser can get connected to his bank's websites to perform any of the virtual banking function the term E-banking electronic banking covers both computer and mobile. When the customer decides to make payment through Ebanking. The customer needs to register with particulars instructions and setup password and another credential for customer verification.

Scenario of E-Banking after demonetization in India

After demonetisation the E-banking a major role E-banking become an essential component to “improve economic growth” now Bank of India recently implemented cashless withdrawal service. This concept helps to the customer to send money through ATM. The government implemented 24*7 service basis in India and they provide integrated delivery channels like Internet. Due to demonetization, this will replace the traditional clearing system. India has seen an explosion in digital payment options, from e-Wallets to the Unified Payment Interface to a combination of the two. There are many cashless payment options available in India.

Alternative payment channels: 5 Best cashless payment options in India.

- 1) **E-Wallets** – E-Wallets have become very famous nowadays. After demonetisation, use of e-wallets has been implemented at a very large-scale. These e-wallets allow users to make payments using your mobile number or by scanning a QR code which takes place in a jiffy. All you need to do is simply download a wallet like paytm.
- 2) **UPI** –UPI also known as Unified Payments Interface is another great way to go cashless. Unified payments interface also called UPI is a system of payments. Using unified payments interface, people can transact using their smartphones. To pay using this system called unified payments interface, you need 2 important things: Smartphone and a Bank Account.
- 3) **Plastic Money** – Plastic Money means debit cards and credit cards that are used at ATM’s for cash withdrawal and POS machines while shopping. Having a debit or credit cards make you burden free from carrying cash.
- 4) **Net Banking** – Net Banking is another handy way to get cashless transactions done. All you need is a bank account with e-banking facility enabled on it. You can transfer funds to others account from the comfort of your home. There is no need of going to your bank to get transfers done. You can make all payments and transfers yourself. This is a very convenient way to go cashless in India as well.
- 5) **Aadhaar Card** – Aadhaar Card enabled payment system allows a person to pay using his aadhaar card if it is linked to his bank account. Once you link your aadhaar card to your bank, you can make payments using your fingerprints.

The Impact on Online Payments:

If there is one thing that has been growing at a good pace after demonetization, it is online payments. Rather than being tied up in the cash crunch and standing in the never-ending ATM queues, more people switched to online payments. There has been a rise in the number of debit and credit card transactions. Even smaller vendors have introduced cashless payment methods.

Tackling the cash crunch by tapping the potential of online payments:

- There has been a significant growth in the mobile wallet sector. Transferring money as well as making payments for online orders is easy with mobile wallets. More people have begun to fill up their mobile wallets resulting in the growth of the mobile wallet providers like Paytm, Mobikwik and more.
- Unified Payments Interface (UPI) will see a steady growth. The support of the government has also been in favour of promoting UPI for online payments.
- The first main benefit is the freedom to choose an EMI option for your bigger purchases. If you purchase a smartphone or laptop on EMI, your short-term financial strain would be less.
- Banks like ICICI have introduced debit card EMI option for mobile and other purchases. This can also benefit customers making online purchases without a credit card. Imagine being able to purchase all high-end smartphones and laptops on EMI even without owning a credit card!
- You could choose to purchase all the gadgets, furniture and appliances you have always hesitated to purchase due to your financial constraint through online loans and pay easily with your debit card. These micro-loans are paid through your debit cards and thus make it easy for you to purchase any gadget say like iPhone 5S on EMI without a credit card from any of your favourite online retailers.

Digital transactions have trebled and quadrupled in volume and value across various modes from wallets to cards and interbank transfers from a year earlier. Card transactions at the point of sale (PoS) terminals at merchant locations have surged, reflecting a positive for the economy as more people start using their debit cards for payments rather than for withdrawing cash at ATMs. Debit card transactions rose to more than 1 billion in January from 817 million last year. While ATM transactions have remained constant at around 700 million, the incremental growth has been driven mostly by card swipes at PoS terminals.

Transactions on these trebled to 328 million against 109 million in January last year by way of volume. “The acceptance infrastructure of the country has expanded significantly, which allowed card transactions to report the biggest growth post demonetisation,” said Lokvir Kapoor, chief executive officer at PineLabs, one of the biggest deployers of retail terminals. “Further, with so many different initiatives from the government, card transactions at terminals will only grow.”

Afternote recall, under pressure from the government, banks deployed 1 million additional PoS terminals within three months, taking their total number to around 2.52 million.

Digital Drive Gathers Momentum						
	2017			2016		
	JAN	FEB	MARCH	JAN	FEB	MARCH
VOLUME OF TRANSACTIONS (IN MILLION)						
Debit Cards	1,040.97	944.32	981.28	817.51	796.69	844.59
IMPS	62.42	59.75	67.41	22.48	23.86	25.98
PPIs	295.8	280.02	342.09	65.25	65.37	72
VALUE OF TRANSACTIONS (IN ₹ BILLION)						
Debit Cards	2,006.48	2,286.82	2,616.45	2,327.99	2,259.57	2,342.82
IMPS	491.25	482.21	564.68	165.59	169.67	198.73
PPIs	110.01	96.28	106.77	49.09	49.98	59.72


Source RBI

From the above table, it clearly shows that post demonetization got affected on use of Debit cards, in 2016 the use of Debit cards transaction for the first quarter was 2458.79 and it was increased to 2966.57 for the first quarter of 2017 and it was expected to increase in coming quarters.

BHIM, UPI Clocked 6.4 million In March

Besides plastic, the government has also been promoting smartphone-based transactions through the Unified Payments Interface (UPI) and the Bharat Interface for Money (BHIM). Both use the Immediate Payment Service (IMPS) network of the National Payments Corporation of India. IMPS has seen a 160% jump with 67 million transactions in March against 26 million a year earlier. According to data released by NPCI, of the total IMPS transactions, BHIM and UPI clocked 6.4 million in March of this year, up from 4.4 million in January and a mere 100,000 in October 2016, just before demonetisation. “While peer-to-peer transactions on UPI have started picking up, we have not seen a paradigm shift on transactions in bank-led UPI apps.

Going cashless						
	Dec '15		Nov '16		Dec '16	
	Volume (in million)	Value (₹ cr)	Volume (in million)	Value (₹ cr)	Volume (in million)	Value (₹ cr)
Mobile banking	39	49,029	85	1,37,443	89	1,48,583
Digital wallet	53	2,063	138	3,305	213	7,448
Credit card	69.9	21,400	98	26,432	111	29,989



Source : RBI

From the above table, it clearly shows that going cashless transactions was increasing in nature comparing from Dec 2015 to Dec 2016. We can also observe that the maximum increase in the digital wallet from 2063 cr to 7448 cr. It's because of demonetisation.

The demonetisation drive by Prime Minister Narendra Modi on November 8 last year has crowned digital cash as the king of all payment instruments in India. According to the RBI data for December 2016, digital wallet transactions grew almost four times in both value and volume terms compared to the year-ago period. There was also a sharp jump in mobile banking transactions. The three months since demonetisation was notified on November 8 have seen the biggest jump in digital transactions.

Data for the period	RTGS		NEFT		CTS*		IMPS*		Debit and Credit Cards at POS &		Mobile Banking	
	volume	value	volume	value	volume	value	volume	value	volume	value	volume	value
Nov-16	7.9	78479.2	123.0	8807.8	87.1	5419.2	36.2	324.8	205.5	352.4	72.3	1244.9
Dec-16	8.8	84096.5	166.3	11537.6	130.0	6811.9	52.8	431.9	311.0	522.2	70.2	1365.9
Jan-17	9.3	77486.1	164.2	11355.1	118.5	6618.4	62.4	491.2	265.5	481.2	64.9	1206.7
Feb-17	9.1	74218.8	148.2	10877.9	100.4	5993.9	59.7	482.2	212.3	391.5	56.2	1080.0
Mar-17	12.5	123375.8	186.7	16294.5	119.2	8062.8	67.4	564.7	229.7	416.2	60.8	1499.9
Apr-17	9.5	88512.2	143.2	12156.2	95.3	6990.6	65.1	562.1	231.1	431.4	61.0	1443.8
May-17	10.4	90170.5	155.8	12410.8	97.1	6745.9	66.7	585.6	233.4	450.8	64.9	1940.7
Jun-17	9.8	92812.6	152.3	12694.2	91.9	6409.9	65.8	596.5	232.4	468.2	77.1	1584.7
Jul-17	9.4	87149.3	148.1	12011.6	92.2	6342.5	69.1	604.8	237.6	439.3	69.5	1019.2
Aug-17	9.5	89163.4	151.6	12500.4	92.1	6224.3	75.7	651.5	243.0	457.1	70.8	1033.0

Volume in million, Value in Rs. billion (Source NPCI)

Cashless Payment System

As the banking system evolved, it became easier, safe and even remunerative to keep one's money in a bank account and it became still easier and safe to use, transfer of money in bank accounts for making payments for the economic transactions. This was more so for large value transactions. Actually, it is now used equally for effecting low-value transactions also. For effecting this transfer of money in bank accounts, a payment instrument was needed to instruct the bank to effect that transfer. This instrument was the cheque for a very long period. Thus a system consisting of the cheque as the payment instruments and an infrastructure around the cheques consisting of the drawee bank, the drawer bank and the cheque clearing houses came on the scene and were known as the payment systems. With the developments in the information and communication technology, the world over, different kinds of payment instruments and innovations in the instruments and the payment systems evolved. It happened in India too and that's the story I will be narrating now.

Changes in E-Commerce Segments

Despite bringing chaos in its initial days, demonetisation, in the long run, is considered beneficial to the growth of e-commerce in India. One of the long-term benefits for the e-commerce industry is a reduction in payments via COD. For online retailers COD involves additional cost and the risk of returns or thefts is higher in this form of payment. Here is how demonetisation has affected the 4 main segments of the e-commerce industry.

- **Online Retail**

Online retailers like Amazon and Snapdeal welcomed the Government's move on demonetisation but they have also had to deal with a slump in business. There has been a 30 percent - 40 percent reduction in COD orders. The final quarter of 2016 was definitely not as fruitful as in the previous years for giants in the e-commerce industry. The consumer is not in a mood to spend and this situation is expected to continue until the end of the first quarter in 2017. Most of the online retail stores continue to be dependent on cash payments as it is going to take some time for all customers to switch to digital payments.

- **Payments**

The digital wallet and payment segments have emerged clear winners post demonetisation. Local vegetable shops and paani puri vendors have been showcased on social

media for displaying signs asking for digital payments. Payment gateways have already seen an 80 percent growth and the number is increasing each week. There is a growth in low-value transactions too.

Conclusion.

Electronic banking is becoming a business world after demonetization. India is now on the list of top countries where major population transactonline. With the introduction of smartphones and mobileapplication, the usage rate has increased. But there is a longway to go as rural population of India is still waiting for someprogram from banks that will facilitate their use ofe-banking servicesDue to that the public turns to a cashless transaction that is Internet banking. It reaches High success rates through coordination. It's like two faces of coin become of one side it will be a benefit to National and another side it's going towards digital economy may bring the transparency in the system.

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Negative and Positive impactsofDemonetisationon IndianEconomy

*Netravathi*⁵²

Abstract:

Demonetization is a generation's memorable experience and is going to be one of the economic events of four times. Its impact is felt by every Indian citizen. Demonetization affects the economy through the liquidity side. Its effect will be telling one because nearly 87% of currency value in circulation was withdrawn without replacing bulk of it. Cash in the Indian economy suddenly became invalid that amounts to around Rs. 14 lakhs crores! As a result of the withdrawal of Rs 500 and Rs 1000 notes, there occurred a huge gap in the currency composition as after Rs 100; Rs 2000 is the only denomination. Absence of intermediated denominations like Rs 500 and Rs 1000 will reduce the utility of Rs 2000. Effectively, this will make Rs 2000 less useful as a transaction currency though it can be a store value denomination. India witnessed a historical decision in the month of November 2016, when Rs. 500 and Rs. 1000 notes were banned and completely withdrawn from the market. All of a sudden, there was a sudden growth of anxiousness amongst the Indian citizens as these were the highest denominations notes till date. Therefore, almost 87% of it aimed at curbing black money and use of it in terrorist activities, this step was undoubtedly a big step towards ending corruption by Shri Narendra Modi. However, there have been various other implications of this step in almost every sphere of the lives of the common people of India as well as broadly over the whole of Indian economy.

Keywords:- Fake Indian currency Notes, Average Population per Bank Branch, Central Statistical Office (CSO), Hard Money, Digital Money and Hawala transactions.

Introduction

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India witnessed a historical decision in the month of November 2016, when Rs.500 and Rs.1000 notes were banned and completely withdrawn from the market, as per instructions of our Honorable Prime Minister Shri Narendra Modi. All of a sudden, there was a sudden growth of anxiousness amongst the Indian citizens as these were the highest denominations notes till date. Therefore, almost 87% of cash in the Indian economy suddenly became invalid that amounts to around Rs. 14 lakhs crores! Aimed at curbing black money and use of it in terrorist activities, this step was undoubtedly a big step towards ending corruption by Shri Narendra Modi. However, there have been various other implications of this step in almost every sphere of the lives of the common people of India as well as broadly over the whole of Indian economy.

Objectives of this paper:

1. To study the experience of impact of demonetization in various countries in past years
2. To analyze the current and immediate impact of demonetization of Indian economy;
3. To work out the negative and positive impacts of the demonetization on Indian Economy.

Scope of the study

This study will be helpful for the citizens of India, Indian government, businessman and the Indian customers. Through this study government will be able to know about the future condition of the economy. This study will also be helpful for the Indian citizen because they would be able to know the present and future condition of the economy and they can take a rational decision on their income and expenditure. Finally everybody would be able to know the impact of the note-banned decision on Indian economy as well as Indian markets.

Research Methodology

Secondary data has been used for the study. Secondary data is collected from library, textbooks, and journals, articles from newspapers and from relevant websites available on internet.

Negative Impact of Demonetization on Indian Economy

Demonetization is technically a liquidity shock; a sudden stop in terms of currency availability. It creates a situation where there is a lack of currencies, which affects consumption, investment, production, employment etc. In this context,

the exercise may produce following short term/long term/, consumption/investment, welfare/growth impact on Indian economy. The intensity of demonetization effects clearly depends upon the duration of the liquidity shocks. Following are the main impacts.

➤ **Demonetization**

is not a big disaster like global banking sector crisis of 2007; but at the same time, it will act as a liquidity shock that disturbs economic activities.

➤ **Liquidity crunch (short term effect):** liquidity shock means people are not able to get sufficient volume of popular denomination especially Rs 500. This currency unit is the favourable denomination in daily life. It constituted to nearly 49% of the previous currency supply in terms of value. Higher the time required to resupply Rs 500 notes, higher will be the duration of the liquidity crunch. Current reports indicate that all

security printing press can print only 2000 million units of RS 500 notes by the end of this year. Nearly 100 mn Rs 500 notes were in circulation as on end March 2016. Some portion of this were filled by the new Rs 2000 notes.

➤ **Welfare loss for the currency using population:** Most active segments of the population who constitute the „base of the pyramid“ use currency to meet their transactions. The daily wage earners, other labourers, small traders etc. who reside out of the formal economy use cash frequently. These sections will lose income in the absence of liquid cash. Cash stringency will compel firms to reduce labour cost and thus reduce income to the poor working class. There will be a trickle up effect of the liquidity chaos to the higher income people with time.

➤ **Dark Sides:** Apart from the above-mentioned advantages, there are various disadvantages related to this latest note ban of India. Some of these are mentioned below:

➤ **Uncontrolled rush:** There will be an undesirable and uncontrolled rush of the common mass towards the ATMs and banks for the purpose of currency exchange. As the public to staff ratio in the banks is alarming already, this escalating increase of public footfalls in the banks can create a huge confusion and chaos in the bank's premises leading to the extreme fiasco. There have been incidents of fights also due to which police protection was taken in various branches of the banks. Moreover,

although ATMS are the alternative sources of cash, availability of the new notes is extremely low and this can seriously cause more queues and unnecessary harassment.

- **Vices of illiteracy and nil awareness in the rural areas:** The people from the tinsel towns or the cities can still be armed beforehand in various ways to combat this newly developed situation. They can also make use of plastic money in doing the transactions. But, the people in the villages are hardly aware of the new developments and the effects of the same can adversely affect their livelihoods as they are completely dependent upon cash transactions.
- **Impacts on certain sectors:** Some sectors are there, which are absolutely dependent on cash such as daily wage earners, vegetable vendors, auto rickshaw pullers and various related and allied sectors. They will definitely be hit by the impact of note ban. Moreover, they do not get adequate time to visit the banks for currency exchange and they even do not have the necessary knowledge about the systems and procedures related to bank transactions. All these can grossly give rise to a grim situation for the people working these sectors.
- **The increase of misguides:** No matter whatever good happens in a society, there will always be some people who will misuse the same to misguide the common people such as the opposition parties who will try to reap some benefits by focusing more on the ill effects of note ban and creating unnecessary panic amongst the public.
- As government has announced it in a hastiness, it may effect its execution.
- Allow withdrawal from ATM is upto Rs. 2500 and from bank its Rs 10000 only. Long queues will not allow a person to get money on time. It will be a little difficult for a family person to survive with this amount.
- **The Average Population per Bank Branch (APBB)** as on 31.3.2013 stands at 12,100. Government has given us 50 days to deposit all our cash money into our bank accounts. Lets say 40 days are working out of 50. It means, on banks have to deal with average of 300 people daily. Yes, I agree that this number includes every living human being (children, senior citizens, women), so you can say that this number will reduce on practical scale. But wait, what about people who will come along? What about people who will come repeatedly or I can say, daily? What about people who have to come again due to closing time or any other reason? This number will surely

exceed. Believe me, public dealing is a very tough job and when you have 300 hassled brains in front of you, it becomes horrible.

- **Running out of Money:** Though, everyone needs new currency notes, it is very hard to provide cash on time, even by RBI. Because, there is a limit on printing currency notes. Government just can't order RBI to print new notes as per requirement. There is a regulatory system which guides RBI and Indian government how much new currency notes should be printed other country has to face some serious issues like, inflation. So, government will not be able to provide enough money to banks to pass on to consumers. It will create uncertainty.
- **Empty ATM's:** Same as bank branches, queues on ATM's will also have to face same fate. Standing in long queues and returning with nothing will not please anyone.
- **Patients:** Government hospitals have been allowed to accept old Rs 500 and Rs 1000 notes.
- According to **National Family Health Survey** the private medical sector remains the primary source of health care for 70% of households in urban areas and 63% of households in rural areas. So its easy to understand that what will be the effects on these 63% and 70% patients.
- **White Into Black:** As Indian, we do believe in cash. Even if our money is purely white, we go to bank, withdraw some money and go for shopping. Cheques and ATM swipes are not available everywhere. Like, if someone in family is hospitalized or, have marriage in house, we do withdraw our cash and feel comfortable. So, whatever the reason is, if someone has withdrawn a decent amount from his account then it will create a huge problem for him to prove himself innocent. So, in this case, instead of converting black money into white, a person has accidentally converted his white money into black.
- **Patience of People:** Considering all of the above points (and many more in the line), it will need a superman effort from a common man to keep his patience in balance. Any outburst in the tolerance of people will make the situation more terrible. Though, for now, people are more in favor of respected PM because right now they are not suffers. But when they will face hurdles in their routine jobs due to shortage of money then it will be their patience which will make this historic move a success story.

- **Downfall in Economy:** Though, it will be a very temporary effect, but for the next few months, there will be a visible effect on economy due to the decreased purchased capacity of consumers. Worst effects will be on startups and medium sized companies and firms.
- **The demonetization puzzle**
- GDP data released by the Central Statistical Office (CSO) on 28 February showed that the Indian economy grew by 7% in the fourth quarter of last year, which is the third quarter of the fiscal year. This figure is surprisingly high, given that India was struck by a surprise demonetization operation in November 2016, replacing 87% of all currency in circulation. Prime Minister Modi has used these newly-published data to his advantage, by emphasizing that opponents of his demonetization scheme were wrong in their assessment of the negative effects. This is especially convenient as the largest state Uttar Pradesh is currently electing its new assembly in different stages, which will reach its phase of completion on 15 March. Still, the question remains: is the Indian economy the best practice of resilience, as it seems to weather even the most surprising heavy economic shocks? Or do the data not tell the whole story?

What was demonetization again?

Figure 1: The big squeeze: monetary base declined from INR 22.5trn to 13.7trn



Just to refresh your memory, on 9 November 2016, Prime Minister Modi announced that the INR 500 and INR 1,000 currency notes were no longer legitimate means of payment, and that people were given the opportunity to exchange these old notes for newly-developed INR 500 and INR 2,000 INR notes until the end of the year.

With this so-called demonetization plan, 87% of the currency in circulation was replaced and this resulted in a huge monetary squeeze. In addition, the scheme aimed to draw a large part of the black economy into the banked and taxable part of the economy (overall tax revenue to GDP is a meagre 11%). The demonetization plan could be beneficial for India in the longer run, as it will lift government revenues due to a broader tax base and less tax evasion. In addition, the operation will foster the use of bank accounts and digital payments, making the Indian economy less cash-dependent and improve efficiency and productivity.

IS THE WORST ALREADY OVER?

In the short run, however, the cash crunch should have sizeable negative effects. First of all, India has a substantial informal economy, contributing 46% to non-agricultural Indian GDP and encompassing 84% of the non-agriculture jobs. During the note ban, these parties were not able to pay their workers in cash, buy intermediate goods in cash and sell their products and services for cash. Second, the crackdown on black money, which has been hoarded in the real estate sector, will most likely result in lower house prices and, hence, negative wealth effects. This is also detrimental for private consumption and housing investment. In response to the demonetization operation, many analysts have revised their growth expectations for the fiscal 2016/2017 (April 2016-March 2017) downwards.

Table 1: Many Institutes Revised FY2016/2017

	<i>Original 2017</i>	<i>Revised 2017</i>	<i>2018</i>
Reserve Bank of India	7.6%	7.1%	-
World Bank	7.6%	7.0%	7.6%
IMF	7.6%	6.6%	7.2%
Rabobank	7.0%	5.5%	8.2%

Source: IMF, World Bank, RBI,

LATEST READINGS ARE POSITIVE OF DEMONETIZATION ON INDIAN ECONOMY

If we look at the sector contribution to the macro growth figure, the real estate sector seems to have taken a hit in the fourth quarter, but this was largely counterbalanced by a strong contribution of the agricultural sector and manufacturing, two sector which were also expected to be damaged by demonetization due to heavy cash-dependency and shrinking investment, respectively (Figure 3).

Figure 2: Indian economy didn't budget in Q4

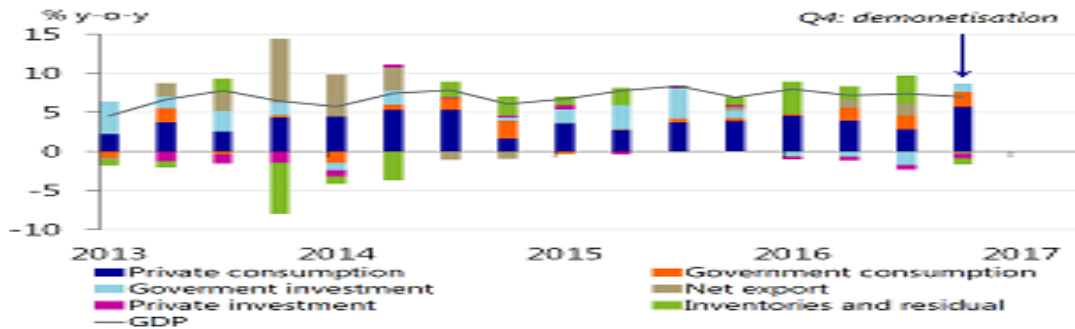
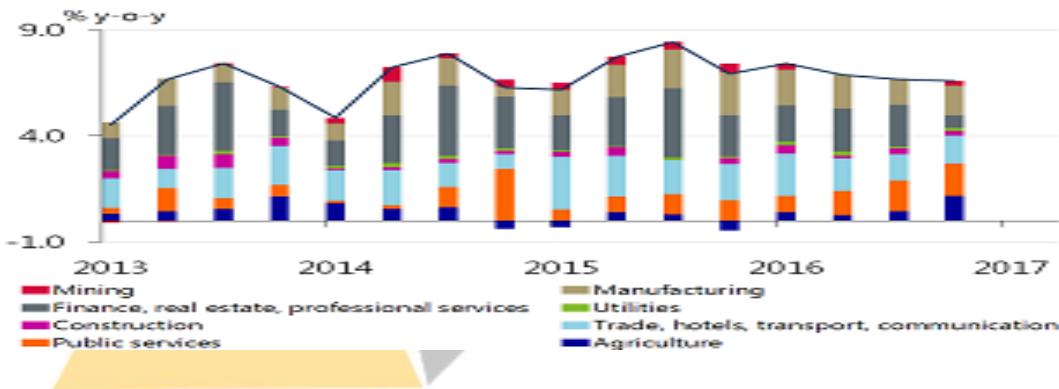


Figure 3: Lower real estate activity has been counterbalanced by higher manufacturing and agricultural activity



Going forward, the purchasing managers' index (PMI) shows a large rebound, indicating the worst of the demonetization may already lie behind us (Figure 4). The same sharp rebound is also visible in vehicle sales. The sales of especially two wheelers, the largest component within total sales, contracted by 12% (% mutation month-on-month) in November and 20% in December, but also shows a rebound in January (+23%). Admittedly, the amount of sales is still far below peak sales in August and September 2016, but the recovery definitely suggests that sales have been delayed rather than cancelled.

Figure 4: PMI points to a rebound

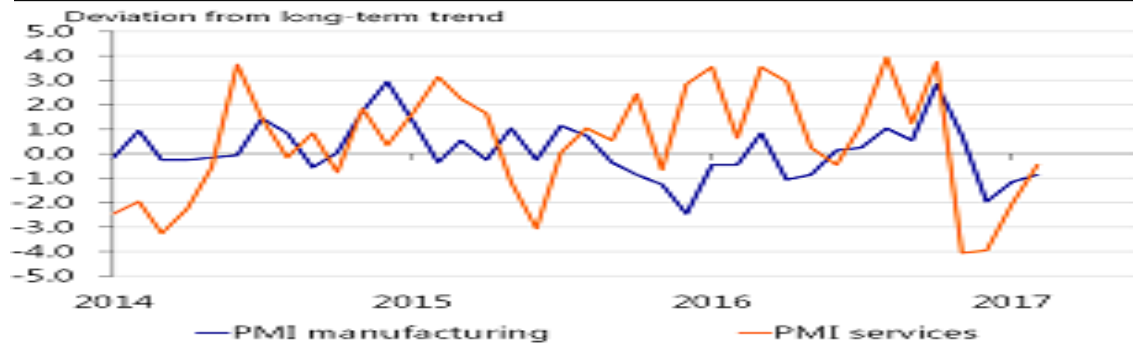
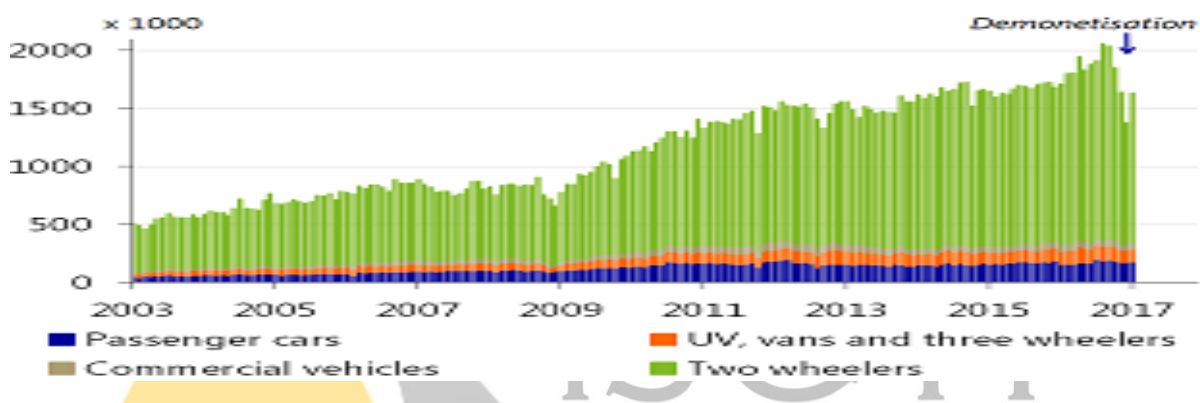


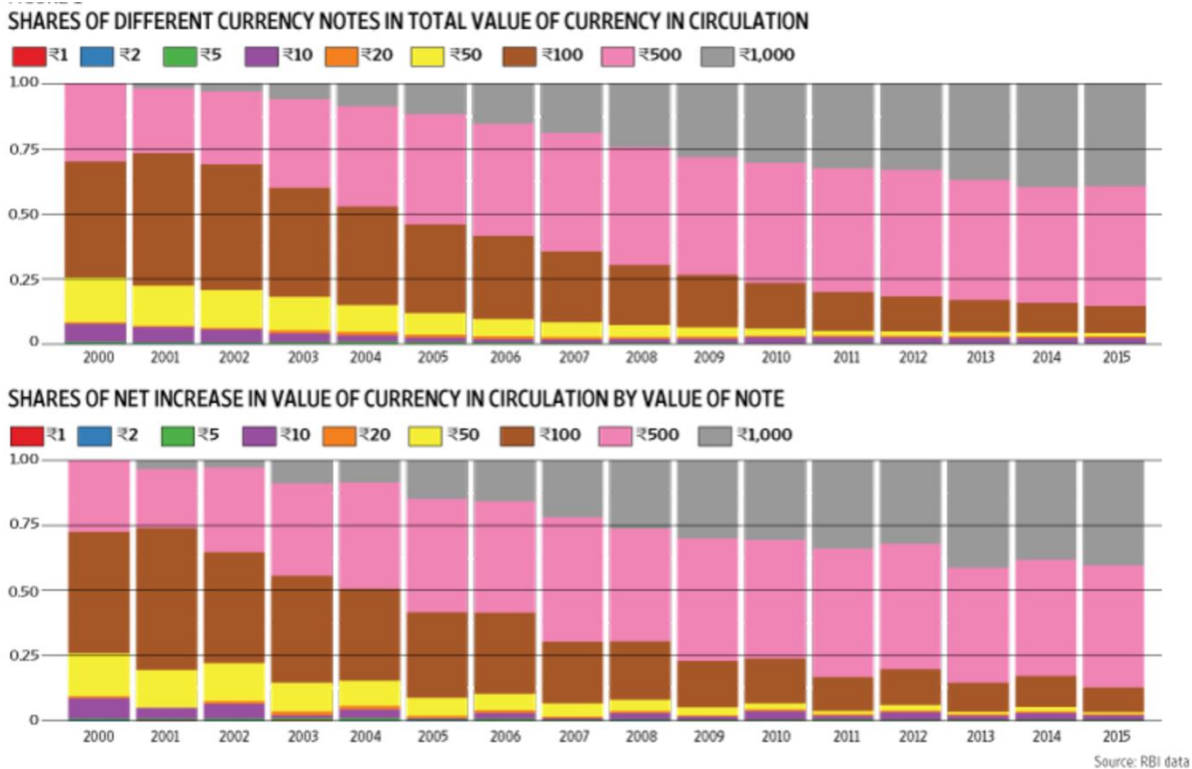
Figure 5: Vehicle sales shows a sharp



- **Ban of black money:** There will be a drastic drop in the amount of black money in India. This is because all the unaccounted money of India today are solely in Rs.500 and Rs.1000 denominations and there are only two-way outs for the holders of the same. Either those have to be exchanged in the banks with valid ID and address proofs that will definitely attract Income Tax attention or those have to be simply disposed of off as they are of no use at present.
- **The resultant decrease in criminal and terrorist activities:** It is an open secret that all these black money was used to fund all kinds of criminal and terrorist activities. Therefore, this note ban will in turn help to bring down the level of terrorist and other criminal activities to a large extent. In other words, a very serious issue of national security is also been taken care of by the pros of note ban. Moreover, all kinds of illicit and illegal activities carried out by the land and underground mafia will come to a

screeching halt. The most affected sector will be real estate as this sector involves only cash transactions and a huge amount of black money transactions.

- **Fall in fake currencies:** Almost ninety percent of fake notes circulated in the Indian system every year are comprised of Rs.500 and Rs.1000 denominations. Therefore, quite evidently, the note ban has completely abolished these fake notes from the Indian banking and economy.



- **Foreign Trust:** Transparency is always welcomed, specially in business. It is the most important gradient for foreign investors. Everyone like to have their money in safe hands. Black money is a major factor in India which inhibits the rapid growth in private sector. When a company decides to invest in a product they can calculate almost every kind of expenditure they will have to face except bribe. **Ratan Tata** has shown his irritation about corruption and bribe many times. So decreased black money will surely help Indian government to gain trust from foreign investors.
- **Lubrication in Circulation:** Money is the lubrication that makes the market economy possible. A large portion of this lubricant was immobilized in the form of black money.

Rs 500 and Rs 1000 shares a major part. Due to this immobilization government is bound to circulate more currency notes in the market to keep it running.

- **Hard Money to Digital Money:** Though, it is the first of its kind, but we may have to face these surgical strikes on black money in the future too. This will give some time to people to understand the need of digital money in the current era. We have seen some inspiring pictures where vegetable seller is accepting money via PayTm. India is changing.
- **New Hope:** Black money was a key agenda for BJP during election campaigns. But people were disappointed when there was no major step taken by the current government. Now when PM Modi has declared the demonetization of Rs 500 and Rs 1000 notes, a positive vibe has been spread through out the country.
- **Zero Counterfeit Notes:** In India, the circulation of fake Indian currency notes (**FICN**) has been on the rise, according to the Reserve Bank of India's (**RBI**) annual reports. The year 2014-2015 saw a steep rise, with 594,446 FICN detected, up from 488,273 in the year 2013-14. When it comes to the type of notes counterfeited in 2014-15, RBI data showed that counterfeited Rs 500 notes were most common, with 273,923 recorded. Rs 100 and Rs 1000 notes were the second and third most counterfeited bills, respectively.

Most of the FICN are printed in Pakistan. Major transit points include India's neighboring countries Nepal and Bangladesh. Other transit routes includes Dubai, Thailand, Malaysia, Sri Lanka and China. Now all this FICN is equal to **ZERO**

DELHI TOPS RECOVERIES OF FAKE INDIAN CURRENCY NOTES

States	2013-14		2014-15		2015-16	
	No. of notes*	Face value**	No. of notes	Face value	No. of notes	Face value
Delhi	2,15,092	10,35,86,240	1,83,405	9,09,80,880	1,90,686	9,31,13,960
Maharashtra	1,04,621	6,07,17,475	96,431	5,98,43,020	38,622	1,44,73,530
Uttar Pradesh	70,221	2,88,10,310	77,814	3,01,23,140	86,298	3,28,60,790
Gujarat	49,480	2,90,02,540	55,084	3,21,66,390	48,972	3,01,80,920
Andhra Pradesh	75,944	3,57,42,390	53,699	2,38,69,040	37,954	1,90,73,530
Tamil Nadu	58,800	3,78,15,110	49,614	3,08,40,350	41,661	2,19,50,450

*Recovered and seized **In rupees.

Source: Figures presented in Parliament

Conclusion

If the money disappears, as some hoarders would not like to be seen with their cash pile, the economy will not benefit. On the other hand if the money finds its way in the economy it could have a meaningful impact.

However experiences from different countries show that the move was one of the series that failed to fix a debt-burdened and inflation-ridden economy. Well, after a thorough outlook and 360-degree view of the whole issue, the bottom-line can be summed up as – A little suffering today can lead to a much better India in the future.

Now this is the mother of all headlines. PM Modi has just addressed the Country and announced that Rs 500 and Rs 1000 notes will be ceased to legal tender from the midnight (8 Nov, 2016). It means, these notes will not be accepted in legal transactions. Black money holders baldly busted. Nature of repel in the water is, it spreads in both the direction. It is a law of nature. In the same way, every action has both negative and positive aspects. But its upto us to decide what is more important. Human brain is more creative in focusing on negative aspects at first. Its not bad as it keeps us alert for the possible adverse conditions.

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Dr. Hanumantharaya S R⁵³

Abstract

The Government of India declared that Rs, 500 and Rs 1000 Rupees notes will no longer be legal tender from midnight 8th November 2016. The RBI will issue Rs, 2000 rupees notes and Rs 500 rupees notes which will be placed in circulation from 10th November 2016. Pm Narendra Modi in an attempt to address the resolve against corruption black money and counterfeit notes. This move is expected to cleanse the formal economic system and discard black money from the same.

Introduction

The process of removing a currency from general usage or circulation is known as demonetization. The Government has implemented a major change in the economic environment by demonetizing the high value currency notes of Rs 500 and Rs 1000 denomination. These ceased to be legal tender from the midnight of 8th of November 2016. People have been given upto December 30, 2016 to exchange the notes held by them. The personal by the Government involves the elimination of these existing notes from circulation and a gradual replacement with a new set of notes. In the short term. It is intended that the case in circulation would be substantially squeezed since there are limits placed on the amount that individuals can withdraw. In the months to come this squeeze may be relaxed some what. That reasons offered form demonetization are two-fold. One to control counterfeit notes that could be contributing to terrorism. In other words a national security concern and second to undermine or eliminate the black economy.

Objectives

The main objective of this paper to study the negative impacts on demonetization in other aspects.

Methodology

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The paper based on the secondary data. The secondary data was collected from various published sources like reports, Internet, Magazines, Journals, News Papers etc.

History and Background

The sudden move to demonetize Rs 500 and Rs 1000 currency notes is not new. First demonetization in January 1946 and again in 1978. The highest demonetization note ever printed by The Reserve Bank of India was the Rs 10,000 note in 1983 and again in 1954. But these notes were demonetized in January 1946 and again in January 1978. According to RBI data Rs 1000 and Rs 10,000 bank notes were in circulation prior to January 1946. Higher denomination bank notes of Rs 1000 and Rs 5000 and Rs 10,000 were reintroduced in 1954 and all of them were demonetized in October 1987. However this is the first time that Rs 2000 currency notes are being introduced while announcing currently circulated Rs 500 and Rs 1000 notes as invalid from midnight 8 November. Prime Minister Narendra Modi said new Rs 500 note and Rs 2000 denomination bank note will be introduced from November 10. Bank notes in Ashoka Pillar watermark series in Rs 10 denomination were issued between 1967 and 1992. Rs 20 in 1972 and 1975 Rs 50 in 1975 and 1981 and Rs 100 between 1967-1979. The bank notes issued during this period contained the symbols representing science and technology, progress and orientation to India art forms.

Where is the negative Impact of demonetization?

- The Indian economy grew by 7% in Q4 of 2016 which is surprising given that India was struck by an unexpected demonetization operation in November 2016. Replacing 86% of all currency in circulation.
- Many Indicators such as economic sentiment and vehicle sales, show a rebound after the demonetization operation, but the initial drop is not visible in the headline GDP figure.
- The most important explanation why demonetization did not produce a big dip in the GDP figures might be found in the quality of Indian statistics. Especially the informal sector which borne the brunt of the demonetization operation due to cash-dependency is underrepresented in the national accounts.
- The gap between former and current liquidity levels is still substantial and we believe the negative effects might reveal themselves in upcoming revisions of GDP or when more reliable informal sector data is released next year. As for now, we will stick to our forecast and expect the Indian economy to grow by 5.5% in FY 2016/2017 and 8.1% FY 2017/2018.

The Demonetization Puzzle

GDP data released by the central statistical office (CSO) on 28 February showed that the Indian economy grew by 7% in the fourth quarter of last year. Which is the third quarter of the fiscal year. This figure is surprisingly high given that India was struck by a surprise demonetization operation in November 2016. Replacing 86% of all currency in circulation. Many analysts expected large negative effects on private consumption and investment. But so far the economy seems to hold up remarkably well. Prime Minister Modi has used these newly-published data to his demonetization scheme were wrong in their assessment off the largest state Uttar Pradesh is currently electing its new assembly in different stages. Which will reach its phase of completion on 15 March. Still the question remains is the Indian economy the best practice of resilience, as it seems to weather even the most surprising heavy economic shocks or do the data not tell the whole story. Just to refresh your memory on 9 November 2016 Prime Minister Modi announced that the INR 500 and INR 1000 currency notes were no longer legitimate means of payment and that people were given the opportunity to exchange these old notes for newly developed INR 500 and INR 2000 INR notes until the end of the year. All incidences of extra ordinary deposit growth were to be subject to a tax investigation by the authorities. With this so-called demonetization plan 86% of the currency in circulation was replaced and this resulted in a huge monetary squeeze the plan was an attempt by the Government to wash the stock of counterfeit money out of the economy. Which has allegedly been used to fund criminal activities such as terrorism and drug trafficking. In addition the scheme aimed to draw a large part of the black economy. Into the banked and tax able part of the economy (overall tax revenue to GDP is a meager 11%) The demonetization plan could be beneficial for India in the longer run, as it will lift government revenues due to broader tax base and less tax evasion. In addition the operation will foster the use of bank accounts and digital payments, making the Indian economy less cash dependent and improve efficiency and productivity.

Is the worst already over?

In the short run however the cash crunch should have sizeable negative effects. First of all India has substantial informal economy, contributing 46% to non-agricultural Indian GDP and encompassing 84% of the non-agriculture jobs (see ILo, 2013) the in formal sector very cash dependent and the liquidity squeeze should have put a brake on transactions,

especially in sectors such as retail agricultural and commodities many entrepreneurs in the agricultural and retail sector do not have bank accounts do not pay taxes and run their daily business solely based on cash transactions. During the note ban. These parties were not able to pay their workers in cash by intermediate goods in cash and sell their products and services for cash.

Second the crackdown on black money which has been hoarded in the real estate sector, will most likely result in lower house prices and hence, negative wealth effects this is also detrimental for private consumption and housing investment in response to the demonetization operation many analysts have revised their growth expectation for the fiscal 2016/2017 (April 2016 March 2017) downwards.

Table 1, Many institutes revised FY 2016-17

	Original 2017	Revised 2017	2018
Reserve Bank of India	7.6%	7.1%	--
World Bank	7.6%	7.0%	7.0%
IMF	7.3%	6.6%	7.2%
Rabo Bank	7.0%	5.5%	8.2%

Source : IMF, World Bank, RBI, Robo Bank

Latest readings are (too) positive

The latest data release, however shows that the Indian Economy grew by 7% (Year-on-Year) in the fourth quarter of 2017. Which is at odds with expectations. Private consumption contributed strongly to growth by 5.7 percentage points. Moreover other drivers were government investment and consumption, contributing an addition 3percentage points to the headline figure.

Measurement Issues

The most important explanation why the cash crunch did not produce a big dip in the Q4 GDP figures might be found in the quality of Indian statistics. Two major issues are at play here (see Nagaraj and Srinivasan 2016) First the CSO is over starting the contribution of the private sector. In 2015 the CSO changed its methodology to measure GDP. Before this revision only a small number of companies actually filed their balance sheets to the firm administrator due to poor law enforcement. The firms that did register their financial metrics were used as a

sample and the data was scaled up. However this method became unreliable, as the number of registrations increased substantially but filings of balance sheets data remained low. Many of these new registrations were so-called shell companies which were used to run black money through the economy (see the truth behind Indians new GDP number) since 2006. The ministry of corporate affairs (MCA) has increased its effort to persuade companies to file their returns for instance by threats of de-registration.

In the 2015 revision the improved data base of the MCA has been by the CSO to produce more reliable national accounts data for the private corporate sector. However the CSO is still using a scale factor to blow up the sample of companies in the data base where as many question if the number of companies in the data base is not the actual number active companies. By using a scale factor The CSO would be over stating the size of the private corporate sector. Over stating the Private sector might be the main cause for the high manufacturing contribution to GDP growth indications of industrial production for manufacturing shows subdued growth or even contraction and even if we consider the 11p for eight key sector of the Indian economics.

Calm before the Storm?

Although the effect of demonetization perhaps did not cause the economic hurricane that some analysts expected we believe the slight puff of headwind that the economy has faced up till now won't be all of it. Ultimately the negative effects are dependent on the period of time before liquidity in the economy has returned to pre-demonetization levels is still substantial and we believe the negative effects on the Indian economy might reveal themselves in upcoming revisions of GDP or when more reliable in formal sector data is released next year as for now we will stick to our forecast and expect the Indian economy to grow by 5.5% in FY2016-17 and 8.2% in FY 2017-18. The pick-up in growth later this year is due to implement such as the Goods and service Tax (GST) which brings uniformity in India complicated effect in the old system. The implementation is most likely due in July 2017 and will result in lower prices of goods and services as well higher investment and tax revenues.

Conclusion

Prime Minister Modi has also signaled that the demonetization was a first step against corruption and tax evasion and property records will be digitalized as well. These digital

records are used to identify individuals who have been registering assets under other peoples names in order to avoid taxes the properly digitalization operation will put additional stress on the real estate sector.

Before the revision the magnitude of informal sector out put was proxied by combining information on value added per worker from natural survey with employment data per industry.

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Demonetization: Effect on Different Aspects

Smt .Poornima S R⁵⁴

“Change is hard at first, messy in the middle and gorgeous at the end “

Robin Sharma

Overnight Indian prime minister Narendra modi announced the demonetization in an unscheduled live televised address at 20:00 Indian Standard Time (IST) on 8 November 2016. In the announcement, Modi declared that use of all Rs500 and Rs1000 bank notes of the Mahatma Gandhi Series would be invalid past midnight, and announced the issuance of new Rs500 and Rs2000 banknotes for exchange of old notes. The news expiry of legal tenders for Rs 500 and Rs 1000 notes was the biggest demonetization in currency system on November 8 2016. The bold and the swift system made by the government, made every Indian in surprise, confusing and more in thunder shock.

In this financial surgical India lost 86% of its monetary base. Promoting to the cashless economy no doubt, the idea of demonetization is really a brilliant concept where cold fever started for corruptors who had kept black money have been sleepless, but for the common people small farmers, retail sellers merchants, daily wage laborers are suffering due to the sudden change of the situation. This is the third time demonetization is happening in India. So that makes it the last time demonetization was done in India. Almost 36 years ago (Earlier in 1946 and 1978).

This paper reveals about the impact on Indian economy and mental depression faced by the common lay men due to lack of planning and foresight by the unexpected circumstances.

Keywords: *Demonetization, Indian economy, Socio-Psychological stress, World Bank words.*

Demonetization

Dictionary meaning of demonetization is to end something. Demonetization is necessary whenever there a change of national currency. The old unit of currency must be

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retired and replaced with a new currency unit. The social Medias focused on the issues of demonetization, effects and consequences of demonetization to the Indian economy and to the common people, about destroying the base corruption of India.

People are facing problems because the limit of withdrawal has not been kept at a higher level if this has been done there were chances that the recycling of black money might begin.

Excessive burden on bank employees to cope up with the situation and even after working so hard they are not able to satisfy the need of people Huge queue started to form in front of bank lines were so long that all people are not able to get cash from ATMs all over the country .there was no enough cash available in the banks ,lines in front of bank and ATM started longer day by day and few people were able to get cash and that was in form of Rs 2000 note which again not able to utilize day to day buy items like milk ,vegetables ,food products of hotels and bakery etc...despite situations worsened when media started to report lot of natural deaths occurred due to people standing on line and the corrupt people who lost money due to this move started to spread the message against the decisions of government .

Breaking down demonetization is to take action to reduce inflation, to combat corruption, to facilitate trade and more to discourage a cash dependent economy to cashless economy. many people are entering ATM'S and using three or four different ATM cards and withdrawing more cash than the prescribed limit for one person.

ATMs and bank which had to shut down a day, the new notes have different specification, including size and thickness, requiring recalibration of ATM s only 60% of the country's 200,000 ATMs were operational at that time, the government restrictions on daily withdrawal amount added to the misery, where the effect was more on small shop owners, small business people struggled to get cash, if they get also they would hear another voice NO CHANGE.

Impact on Indian Economy:

Demonetization is a generation's memorable experience and is going to be one of the economic events of our time it will hit the Indian economy .the demonetization of the 500 rupee note and 1000 rupee note, the two highest currency denominations available in India will likely hit in the short term. Their impact is felt by every Indian citizen. Demonetization affects the economy through the liquidity side .its effect will be a telling one because nearly 86% of

currency value in circulation was withdrawn of Rs500 and Rs1000 notes, there occurred huge gap in the currency composition as after Rs 100 .

Most active segments of the population who constitute the 'base of the pyramid' use currency to meet their transactions. The daily wage earners ,laborers, small traders etc. who reside out of the formal economy uses cash frequently these sections will lose income in the absence of liquid cash reduce labour cost and thus reduces income to the poor working class.

Abolish black money

People having black money generally keep their black money in highest denomination currency notes. This step would abolish black money from the economy as the owners will not be in a position to deposit the same in the banks. This step would make black money kept in cash which generally used to create chaos and terror or is lying with terrorists and naxalites.

Impact of parallel economy

Parallel economy is based on the black money or unaccounted money is a big threat to Indian economy, it is also a cause of big loss in the tax revenues for the government as such it need to be curbed. The removal of 500 and 1000 rupees notes and replacement of the same with new 2000 rupees note is expected to remove 'black money' as the money owners will not be in a position to deposit the same with the banking system ,so this demonetization is going to examine it if necessary and repair the economic monetary engine.

Supply of money With the older notes of scrapping the new notes get widely circulated in the market, money supply is expected to reduce in the short run. Misuse of monetary power, stock of notes and plans impacting directly are all the chances of lowering the inflation.

Some effects of parallel economy

The circulation of black money has affected the economy in several ways. It has worsened the income distribution, and has there by undermined the fabric of the society. Economy became a big handicap in making a correct analysis and formulation of right policies for it, black money has eroded the social values of the society. The undeclared income is earned by illegitimate ways.

Effect of Gross domestic product (GDP)

The effect of GDP formation could be impacted by this measure with reduction in the consumption demand, however with the recent rise in the festival demand is expected to offset

this fall in overall impact, moreover this expected impact on GDP may not be significant as some of this demand will only be deferred and re-enter the stream once the cash situation becomes normal. The growth of GDP was 9.2 in 2015-2016 , In 2016-2017 it decreased to 6.1, In 2017-2018 it was almost to 5.1 the effect of GDP our country was worsened due to the impact of demonetization .Modi's demonetization maneuver was a "shock doctrine" tactic to dismantle the cash-centric black market, to cleanse the country of counterfeit notes, to further digitize the economy, and to get more of the population onto the formal, taxable economic grid.

Alternative funds

Soon after the announcement people rushed to buy gold, a demand that drove prices up, in some cases even to a 60% premium, promoting to conduct surveys. The government emphasized the need to furnish PAN (permanent Account Number) card details on purchase for accountability purpose, and many jewellery shops that were flouting the norms .prepaid cash cards were another option that customers found useful, that meant good news for companies like its cash other alternatives includes mobile payment like ola money, flip kart, wallet mobile Pay tm etc..

Fighting counterfeiting

Another stated goal of Modi's demonetization campaign was to curb counterfeiting. It was reported that prior to this initiative, 250 out of every million Indian banknotes were fake — the blame mostly being placed on Pakistan, where there are rumored to be government-directed printing presses churning out Indian rupees to fuel terrorism. The new 500 and 2,000 rupee banknotes which are currently being issued have different designs and are of different sizes than the previous notes, so all old fakes were instantly washed from the economy.

Social Impact

Sociology is a science which deals with the mind of the group of people or the mind of the society. To the best of my understanding, the society is not comfortable due to demonetization, although it may fetch the desired effects in future .In India, the poor Indians are still poor and the rich are enjoying still the cream of the cake. The per capita income has not risen to enjoy the available technological fruits like electricity in all villages, availability of transport in remote villages, health to all, basic education to all , reduction in the ranking of corruption etc

The social impact of demonetization is the top concern for common people queuing up to protest about the demonetization ,because people who do not use plastic money such as credit cards, debit cards or online banking will not have usable money for basic necessities. Small time merchants without plastic money cannot buy further stocks. Small time shops and independent services like transport that do not accept other methods of payments will lose business. Due to this cash crunch, India ground to a halt. Businesses shut down, farmers couldn't buy seeds, taxi and rickshaw drivers didn't have any way to receive payments, employers had no way to pay their employees, hospitals were refusing patients who only had old banknotes, fishermen watched their catch wither up and rot, some families had difficulty buying food, and weddings throughout the country were canceled or postponed . Daily wage earners would not get money. Black money stored in the form of Rs 500 and 1000 Rs will be taken out of our system. As predicted by ICICI securities primary dealership the government's plan to scarp 500 and 1000 Rs notes will uncover up to 4.6 lakh crore in black money.

Social Effects

- Fear of move against gold and real estate in future.
- Standing in long queue for days for own hard money has created unrest in a vast majority.
- Cash flow reduced local vendors lost business ,daily wage workers lost job and their employer don't have cash to pay ,the lower income groups in general faced problem as they in no where prepared.
- Without money to buy the essential commodities including grocery, milk and vegetables became difficult. Hence, some of them starved hoping it will bring good to the nation.

Psychological mental stress of demonetization

Due to the effect of demonetization, Plan to buy flat, vehicles and marriage may cause insecure to the most of the people; beside this people have been panic about the situation and also suffering from irritable behavior syndrome. According to psychiatrist center's demonetization decision is affecting on the mental health of many cash strapped businessmen in rural areas. The fear of business or product, stock will go in waste incurring him a huge loss may lead to anxiety attacks. The psychological distress leads to behavioral change the most

people which are affected are from middle and upper middle class families, they are suffering from mental stress and started drinking heavily, snapping and scolding kids and wife.

The immediate reliefs prescribed by psychiatrist are medications, relaxing therapy, deep breathing, listening to music, exercises like walking, pursuing the hobbies and distraction techniques will help in calming nerves and relaxing the mind, because all people are having a bundle of emotional depression, where stress level should come controlled.

Beyond all these psychological effect the physical dependence on cash will reduce and India will march towards a more transparent, inclusive and cashless money, and also it definitely impact on terrorism who directly or indirectly supported terrorism through the fake currency.

Word bank words

The World Bank has said the social impact of demonetization may have been greater as the informal economy was likely to have been hit especially hard. However, the Bank said the impact of demonetization on the informal economy was difficult to measure and greater data availability, especially on labour markets, is needed to better gauge the social impact of such policies in the future.

In its India Development Update the Bank said there were “statistical issues that mask some of the impact of demonetization on measured economic growth in Q3 (third quarter of 2016-2017).The government had on November 8, 2016 announced that existing Rs. 500 and Rs. 1000 banknotes, corresponding to 86 per cent of India’s currency in circulation by value, had been “demonetized” – that is, ceased to be legal tender. Noting that demonetization caused an immediate cash crunch and that activity in cash-reliant sectors was affected, the Bank said India’s GDP growth slowed to 7% per cent year-on-year during the third quarter of 2016-2017 from 7.3 per cent in the first quarter. As a result, a modest slowdown is expected in the GDP growth in 2016-2017 to 6.8 per cent. According to the Update, growth is expected to recover in 2017-2018 to 7.2 per cent and is projected to gradually increase to 7.7 per cent in 2019-2020.

The Bank said: “While the macro-economic impact of demonetization has been relatively limited, the distribution of costs is uneven as the informal economy is likely to have been hit especially hard.” The report said although the informal economy may account for only 40 per cent of (India’s) GDP, it employs 90 per cent of India’s workers, and the disproportionate impact of demonetization on India’s informal sector suggests that it would have affected those workers the most. The poor and vulnerable are more likely to work in

informal sectors such as farming small retail and construction, and are less able to move to non-cash payments, the Bank said.

Demand for guaranteed employment up to February 2017 exceeded the full year of 2015-16 and rural consumption (in particular, sales of two-wheelers) contracted sharply in November, it said. However, it said, in the long-term, demonetization has the potential to accelerate the formalization of the economy. The implementation of the GST is a key complementary reform that will support formalization, as firms have a strong incentive to register with GST to obtain input tax credits, the Update added.

Eleven month infant: Demonetization

Eleven months after demonetization, the country struggles to determine whether demonetization was a beneficial move or not. It is a popular belief that the move was good politics but bad economics. While at the same time negatively affecting most aspects of the economy. A major obstacle in analyzing the effects of demonetization is the lack of credible or extensive data on the same – it has not been provided by either the Finance Ministry or the RBI. One can only hope that more data will be revealed in the near future so that a detailed, in-depth analysis of the aftermath of demonetization can be made.

It is widely accepted that its stated goals of combating black money and terrorism have been either overhyped or unmet. Furthermore, in the weeks after 8 November 2017, the government transformed the rhetoric from one that revolved around tackling corruption to one that revolved around the need to digitize India's economy. While this in itself was criticized as a cop-out, even when it comes to digitization, the numbers are unimpressive, with the number of digital transaction falling throughout 2017 to pre-demonetization levels.

Highlights of demonetization

- India is still a vastly unbanked country.
- Many among the poor do not have bank accounts.
- Unwanted expenditure is reduced in the form of forced saving.
- Curb of black money: if not 100% then at least 60-75%.
- Corruption: less black money would lead to less corruption caused due to fake currency.
- Curb inflation: caused due to fake currency.
- Curb terrorism: by breaking its back bone, fake currency, and illegal income generation.
- Curb Naxalite: terrorism by reduction of fake currency used to empower them.

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- Increase GDP: by merging parallel economy in the main economy, a portion of black money will turn main stream and add to GDP.
 - Governments gets higher and additional tax: Increase tax revenues by inviting more tax returns than before, and fines paid by defaulters.
 - Financial inclusions for JANDHAN account holders.
 - Price cut in Real Estate

Conclusion

For the first time in decades, we are hopeful for the bright future of next generation. Demonetization was a very good step taken by our prime minister, but it adversely affected the common people. As we know that most of the Indians live in villages and don't know about the digital system while the black money holders are rich and corrupted so they led the same life as before and also got their money back, while the poor villagers were unable to get even a onetime meal. It also affected the normal shopkeepers who have the cash as the only source of the transaction. Thus I would like to conclude that although it was a good step illiterate persons were affected most. Success for us, for a better future for our kids and above all for this great nation. Positive move to remove corruption and black money from the country faced inconvenience. The decision will be very helpful in the long run, but it could have better planned by depositing 100 rupees notes in bank earlier from three months of demonetization.

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Demonetization and cashless Economy: It's impact on Agriculture in India

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Abstract

The recent step of declaring the existing stock of Rs.1000 and Rs.500 notes as illegal tender has addressed multiple issues with one stroke. Most importantly, it has straight away wiped out most of the illegal cash accumulated over a number of years from the system. Cashless economy is generally corruption free; there are lots of benefits for being cashless. Cost of handling cash is high; it is in the favour of economies to go cashless. No liquid money is used by the society. The Prime Minister has urged farmers to embrace cashless transactions. In his monthly radio address, Mann Ki Baat, he said: "I want to salute the farmers who are standing tall in difficult times." Several bodies in the agriculture sector have come forward to lend a helping hand. "IFFCO has decided to spearhead the campaign in all our marketing zones located across the country to sensitize our farmers about the use of online and digital payment gateways and also educate them about the benefits of going cashless. Hon'ble Minister of Agriculture and Farmers Welfare also held several meetings with representatives of IFFCO, KRIBHCO, AIRTEL, NCUIE, NCDC, NABARD, AMUL, Mother Dairy, State Cooperative banks and 35 interstate Cooperative banks attended in a meeting decided to promote awareness programs, trainings and develop infrastructure in e-banking across the country. In this meeting, through presentations by NITI Ayog, emphasis was given to use prepaid cards, USSD, (Unstructured Supplementary service Data) Adhaar Enabled e-payment system, UPI,(Unified Payments Interface) Ewallet, POS (Point of Sales) across the country to strengthen the infrastructure and promote activities for cashless transactions. At present, all Hon'ble Ministers of State are making field visits where not only training and awareness programs are being conducted in addition to that, even the College Students and staff volunteers also actively involving and meeting the farmers, rural Business centers like Mandis, Village markets, Regulated Markets and households to activate mobile banking services in their devices to carry the cashless transaction and Cashless payments to promote Agricultural activities.

Keywords: *Demonetization, illegal tender, agriculture sector, e-banking*

Introduction:

Agriculture is the production, processing, marketing, and use of foods, fibers and by products from plants, crops and animals. "Agribusiness" as a broad term encompassing all aspects of agricultural production, processing and distribution. This includes food, forest and fiber production, their by-product utilization, agricultural chemicals and pharmaceuticals, agricultural finance and trade, agribusiness/farm management, agro-environmental considerations, and land development; in short, all of the major elements essential to the establishment and operation of efficient agro-food enterprises. John Davis and Rav Goldberg defined agribusiness as the sum total of all operations involved in the manufacture, and distribution of farm supplies; production operations on the farm; and the storage, processing, and distribution of the resulting farm commodities and items. It is in simple a process and product of applying economics in business and development of agriculture. It engulfs efforts to modernize and diversify agricultural operations using industrial approach and managerial expertise. It is, thus, an umbrella term to bring together agriculture, manufacturing and services for the sake of socio-economic integration and development. The structure of agribusiness has two main pillars in agri-infrastructure and agri-management. Farm managers, consumers, engineers and administrators are its integral components. With agribusiness, the traditional myth of agriculture being an only on-farm activity is exploded. It is not merely "cows, sows, and ploughs" or "weeds, seeds and feeds" activity. Today agriculture is a technology industry that includes production, agri-science and agribusiness. It is both an on-farm and off-farm activity and the agriculturist is today a farm manager or an agri businessman.

Positive Impacts of Demonetization

Black Money tracking:

This move will help the government to track unaccounted black money or cash on which income tax has not been paid. Individuals who are sitting on a pile of cash usually do not deposit the amount in the bank or invest anywhere as they would be required to show income or submit PAN for any valid financial transactions. They would hide it somewhere and use it as and when necessary. Banning high-value currency will impact people who will have no option, but, to declare income and pay tax on the same or destroy the cash somehow.

Reduction in illegal activity:

Banning high-value currency will halt illegal activity as the cash provided for such activities has no value now. Black money is usually used to fund the illegal activity, terrorism, and money laundering.

Eradication of Counterfeit Currency:

Fake/forgery/copy/reproduction currency circulation will come to a halt in a single shot. Corrupt officers, money launderers are under threat as Income tax department is taking all the measures to track such people.

Tax payment:

Most of the businessmen who have been hiding some income are ready to pay advance tax as current year's income. Tax payers who have been hiding some income can come forward to declare income and pay tax on the same. Individuals are required to submit PAN for any deposit above Rs 50,000 in cash, which will help tax department to track individuals with high denominations. Also, deposit up to Rs 2.5 lakh will not come under Income tax scrutiny.

Jan Dhan Yojana:

Now individuals are depositing/deposited enough cash in their Jan Dhan accounts which they were reluctant to do so a few days back. The amount deposited can be used for the betterment of the country.

Negative Impacts of Demonetization Inconvenience:

It may cause inconvenience for initial few days for those who have to start running to the banks to exchange notes, deposit amount or withdraw the same. The situation can turn chaotic if there is a delay in the circulation of new currency. Individuals who have an upcoming wedding are the ones who have to make alternative arrangements to make payments. However, the government has given higher withdrawal limit in such cases.

Cashless Era

Cashless economy is generally corruption free, there are lots of benefits for being cashless Cost of handling cash is high; it is in the favour of economies to go cashless. No liquid money is used by the society. A cashless economy is a system where any type of money transactions are done through digital means like debit cards, electronic fund transfer, mobile payments, internet banking, mobile wallets, and other newly evolved payment channels, this

will leave very little scope for flow of hard cash in economy. The change of currency notes and resultant cash crunch in the system has led to a new opportunity for the country i.e. to move towards a cashless or less cash society in the medium to long run. Hon'ble Prime Minister, in his "Mann ki Baat" address to the nation has emphasized the need to use alternate methods of payments without relying heavily on cash. While India has come a long way from introduction of electronic funds transfer, the newer forms of payment have been developed in the recent years which hold significant potential to move towards a less cash economy. These includes Unified Payments Interface (UPI) which enables a person to transfer funds to any other person registered on UPI through mobile phone connected to internet; Digital wallets, such as SBI Buddy wherein money can be loaded to your mobile wallets (e-batua) and transferred to any other person using mobile numbers or bank details;

Pre-paid, Debit or Credit Cards which can be used at ATMs, Point of Sales (PoS) Machines by swiping the cards; Aadhaar Enabled Payment Systems (AEPS) wherein funds can be transferred using Aadhaar numbers seeding with bank accounts; thumb impression of identity and A large part of the population is still outside the banking net and not in a position to reduce its dependence on cash. According to a 2015 report by Price water house Coopers; India's unbanked population was at 233 million. Even for people with access to banking, the ability to use their debit or credit card is limited because there are only about 1.46 million points of sale which accept payments through cards.

About 90% of the workforce, which produces nearly half of the output in the country, works in the unorganized sector? It will not be easy for the informal sector to become cashless, and this part of the economy is likely to be affected the most because of the ongoing currency swap.

- The availability and quality of telecom network will play an important role. Presently, people face difficulties in making electronic payments even in metro cities because of poor network.
- As one of the biggest beneficiaries of this transition, banks and related service providers will have to constantly invest in technology in order to improve security and ease of transaction. People will only shift when it's easier, certain and safe to make cashless transactions.

Positive impacts of Cashless Economy of India

- To Avoid Black money transitions in agriculture and agribusiness activities
- Reduces the circulation of liquid money in agricultural sector
- The black money or parallel money cannot be able to sustain in both activities
- To avoid time consuming and risk
- It helps to economic growth
- It helps to increase security
- It helps to reduce illegal business
- It helps to avoid/eliminate the threat of counterfeit currency
- It helps for effective utilization of resources
- It helps to effective transaction
- To avoid criminal activities
- It helps the People to use the means of e-commerce, mobile banking or internet banking for their purchase and payment transaction
- It is easy to handle
- The transaction process and purchase will made easy
- If the government finds a person guilty government can easily block his/her transaction
- The government can control the financial transitions in the society

Will It Succeed Narendra Modi's Cashless Economy in India?

First of all, Indian economy and Modi's economy, since one day or another, modi's will become part of History, but India will always remain. Secondly, he is trying to reduce dependence on cash transactions and thereby increase dependence on banks. 100 percent cashless economy is not possible, however, whenever possible if people start using debit/credit cards and e-banking, the dependence on cash will automatically reduce. More and More transactions will get routed through banking system and so more and more transactions will become accessible to the government authorities.

First and foremost reason being the huge population of India A dominant part of society that is still not used to technology and stuff that makes them to hesitate. It's true that there are people who don't even trust the value of such transactions and they can't be blamed for that.

India is yet to attain the coverage of network required for the same. Trying for cashless economy at this point is linking jumping before learning to stand.

Even in big cities like Bangalore, shops or petrol bunks etc are still reluctant to accept cash less transactions below a minimum value (mostly 200). For small transaction people nevertheless would prefer cash only. Attitude of the buyer as well as seller should be changed which means attitude of not just few but all people should be changed simultaneously which is not just hectic but almost impossible in a short time. With lot of options involved for cashless transactions like credit/debit cards, paytm, mobile banking etc, and a ubiquitous method from govt. Is necessary for replacing the dominant cash based economy.

Will Indian Agriculture become a cashless economy?

Yes, When Farmers and Agribusiness people accepting the cashless transactions it depends on readiness of citizens like me and you for accepting cashless transactions and on merchants to accept cashless modes of payment i.e. the plastic money.

Narendra Modi's initiative DIGITAL INDIA and demonetization help up an extent. Not only Mukesh Ambani introduced JIO 4G even other net works also started providing 4G networks. Helps to provide high speed internet. It helps to easy flow of e-commerce. India will have a big chance to cashless economy in future.

Negative Impact of Cashless Transaction in Agriculture

Rural & Poor Masses: The big one is that poorer people are less likely to have access to financial services, and are more likely to use cash in their daily lives. Unless they were granted free or cheap access to financial services, they'd be at a disadvantage in being able to purchase things in a cashless economy.

Big farmers and Business Traders: who have unaccounted cash as well as the commodity traders, artisans and commission agents in the mandis who deals on cash will necessarily feel the Pain.

Recovery of Loan Dues: When payments are made through cashless transaction, most of the farmers and agribusiness people are real sufferers because when their amount/payments are directly credited to their account. When they have loan dues in the bank, it is easy way for the bank to deduct loan amount from their account. It benefits the banks and it disbenefits the agriculturists and traders.

Income of commission agents: comprises both farm and nonfarm. The move will lead to show separate declarations to the banks while depositing the cash.

Agricultural income: whether the amount is Rs five lakh or Rs one core, they will not have any problem as agricultural income is exempted from income tax. However, they may face problem during declaring non-farm incomes,”

Commission agents: have huge cash transactions and earn interests on lending. They deal in real estate, rent machinery, and have petroleum pumps among various other activities. It would be challenging for them to distinguish agricultural and non agricultural income.

Government: must have prepared something, so that the move will not affect small income groups in the villages. The non cash transactions will take the cash in the system and will be good for overall economy,

Per week cash withdrawal: limit of Rs. 24000 will not allow agricultural commodity traders to make payments to farmers in the mode of cash. Thus, they will have to take the route of cashless transactions such as cheques, NEFT or RTGS. To begin the process, the farmers will have to join the banking network.

Traders: For short-term, the traders will face problem, but in the long run, they will come into the system by making transactions through banks. It will gradually increase the financial market.

It could lead to a new divide - the digital divide: Just like the 21st century turned smokers into the new untouchables, there is a possibility that those transacting in cash would be discriminated against cashless transaction.

It could reduce our mathematical skills: Ask your father how many phone numbers he could remember 20 years back. He probably could dial 20 numbers without referring to his phone diary. How many numbers do you remember? Cash less also means less counting and lack of practice dulls the mind.

It would make skimming money easier: Did you know that the telephone industry can increase its profits by thousands of core if it raised call rates by 10 paisa. Payment companies can achieve the same thing if all transactions move to cashless. They could increase charges by .01 per cent and no one might notice.

It could cause us to lose track of spending: When you have paper money it is easier to set limits on how much you wish to spend. With a card or an e-wallet, you keep swiping and after a while you will probably end up not looking at the notifications or statements. This is how consumers in the US end up running unsustainable credit card debt.

It is the end of secrecy and Privacy: What if every transaction you did was recorded in a central server and an unethical person had access to it. Even the Government can track all kind of transaction/spending, where cash comes and goes. Then we lose our privacy.

Related to Cyber fraud and hacking: the entire economy will fall down. Thus, with a strong security system in the online processing to avoid hacking and cyber fraud.

Issues of cashless transaction in Agriculture: The Cashless Economy is beneficial to the Banks, Internet Service Provider, Businessmen, and Government and finally to the Society, it includes all the sectors of economy. Everyone aware that, what kind of problem which are existing in the Agriculture and Agribusiness sector whether cash less transaction is suitable to implement in Primary Sector? Whether rural people will accept the move from cash to cashless movement? Is it Possible to provide necessary infrastructure to nook and corner of the villages, to meet the requirement of both farmers and Agribusiness men? Main important thing is how to create awareness to the low literate rural masses? Who will be the Best Choice to make use them to create awareness and Training Program? How to change the minds of farmers and agribusiness and the entire rural masses to switchover from cash to cashless system of economy? etc.

Suggestion for agricultural Cashless economy First and foremost thing to set up more number of rural banking with digital mode of system along with Swiping machine and other Infrastructure to provide easy access by the farmers and agribusiness people.

To Create the Door to Door Awareness and Training program for both rural masses and rural business people campaign through representatives of the government organization and other organizations like college students including NCC, NSS, Rovers & Rangers and other Volunteers Including Teaching staff. To maximum utilization of media for awareness and safety measures to use Cashless Rural economy. To make use of both Government and Non-Government Organization to create awareness and also remove their fear of cyber fraud and hacking mind set to safety of Cashless economy. Government should assure the safety and Security, when anything/any transaction went wrong and quick settlement of the problem through Grievance Redressal Mechanism. Internet connectivity with high speed at cheap rates, more bandwidth availability, High cyber security supported by strong and powerful laws against cybercrimes. Before Deductions of Loan Dues, Banks should inform and analyze their repaying capacity, without their knowledge banks are not suppose to deduct the loan dues.

There is a need to spread widespread knowledge and allay the fears amongst the public to use these facilities. Government of India has already initiated a major drive for sensitizing public to make maximum use of these avenues. Simultaneously, issues like connectivity, security and ease of transactions, data protection and user charges are also being addressed.

In the long run, this would provide a significant boost to the economy as more and more informal methods of business transactions migrate to the formal sector paving way for greater transparency, financial inclusion (both on deposits and credit side) and better tax compliance.

At present, all Hon'ble Ministers of State are making field visits where not only training and awareness programs are being conducted in addition to that, even the College Students and staff volunteers also actively involving and meeting the farmers, rural Business centers like Mandis, Village markets, Regulated Markets and households to activate mobile banking services in their devices to carry the cashless transaction and Cashless payments to promote Agricultural and Agribusiness activities.

Conclusion

The Study, Impact of Demonetization Cashless economy in agriculture, Focused on the four major categories by which Rural masses can be classified into Farmers, Business traders/agribusiness men, other allied activities people and Students. It is focused on primary sector and its impact on cashless transactions, as we know that, the primary sector people need to shift from cash to cashless transaction in their agriculture activities. The move towards a cashless society would secure a further degree of control over India by the financial institutions that are pushing for it. Securing payments that accrue from each digital transaction would of course be very financially lucrative for them. These institutions are therefore pursuing a global 'war on cash'. Small, wealthy countries like Denmark and Sweden can bear the impact of a transition to a cashless economy, but for a country like India, which runs on cash, the outcomes so far have been catastrophic for hundreds of millions of people, especially those who don't have a bank account (almost half of the population or do not even have easy access to a bank. But, regardless of the large-scale human suffering imposed as a result of demonetization and cashless move, it could kill two birds with one stone: 1) securing the interests of international capital, including the eventual displacement of the informal (i.e. self-organized) economy; and 2) acting as another deliberate nail in the coffin of Indian farmers, driving even more of them

out of the sector. However, the cashless economy should be achieved in the phased manner and step by step process instead of forcing it on people overnight without expanding banking infrastructure to every nook and corner of the country. Indian farmers, beyond doubt have the required amount of patience needed to undergo a healthy transition from cash to cashless. Much effort has been made to carry cashless transition through swiping machine and also through net banking using NEFT and RTGS for bank payments, suggest that farmers might not be uniformly enthusiastic about move from cash to cashless transactions into their bank accounts for agriculture transactions.



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Impact of Demonetization: An Insight towards Cashless Transaction in Campus

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Abstract

Every social and global issue is a business opportunity just waiting for the right kind of inventive Entrepreneurship, the right kind of investment, the right kind of collective action.

- Peter Drucker

The Concept of Demonetization has created a limelight, an uproar and "hue and cry" among the society people during last few months. A major portion of the cash on hand is generated by economic transactions, which are not reported to tax authorities or generated through corruption. Demonetization is the process of withdrawal of a particular form of

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currency from circulation. Demonetization becomes necessary whenever there is a change in the national currency. The old unit of currency must be retrieved and replaced with a new currency unit. The demonetization had a great significant and immediate impact on the state of the Indian economy. In this paper, an attempt has been made to find impact of demonetization on the public of unorganized business sector. The first was on 12th January 1946 (Saturday), second on 16th January 1978 (Monday) and the third was on 8th November 2016 (Tuesday). The government claimed that the action would curtail the shadow economy and crack down on the use of illicit and counterfeit cash to fund illegal activity and terrorism. India has amongst the highest level of currencies in circulation at 12.1% of GDP.

Demonetization represents much more than destabilization, it has struck a body blow on the economic activity in India. While the proponents of demonetization may have had good intentions, the suffering it has caused to millions of Indians is unwarranted. Since Rs500 and Rs1000 notes make up some 86% of the total currency in circulation in India, especially in the vast rural areas and also unorganized set of business people, the pain to what individuals might experience if 86% of their blood was removed from their bodies.

KEYWORDS: *Demonetization, Cash Crisis, Cashless Transaction, Black Money etc.*

Introduction

Demonetization is an act of federal body to declare some currency instruments as void and ensure that circulation of the same is stopped with immediate effect. It is done with lot of analysis and planning in the background to avoid inconveniences. Demonetization is the most important and necessary when there is a change of national currency. The old unit of currency replaced with new currency. Demonetization is the process where government declares the currently running currency notes illegal to be tender after the declaration is made. There are both pros and cons of demonetization in the Indian economy. The reasons for demonetization are to control counterfeit notes that could be contributing to terrorism, and to undermine or eliminate the “black economy”. There are some potentially ways in which the pre-demonetization money supply will stand altered:

- There would be agents in the economy who are holding cash which they cannot explain and hence they cannot deposit in the banking system. This part of the currency will be extinguished since it would not be replaced in any manner.

- The government might choose to replace only a part of the currency which was in circulation as cash. In the other words, the rest would be available only as electronic money. This could be a mechanism used to force a transition to cashless medium of exchange.
- The empirical extent of these two components will be unravelled only over the next six months.
- These two would have different effects on the economy in the short term and in the medium term, as will be explored below.

This pitch by the government involves the eradication of these existing notes from circulation and a plodding auxiliary with a new set of notes. In the short term, it is projected that the cash in circulation would be extensively clutched since there are limits placed on the amount that individuals can withdraw. In the months to come, this congestion may be relaxed somewhat. The reasons offered for demonetization are two-fold: one, to control counterfeit notes that could be contributing to terrorism, in other words a national security concern and second, to destabilize or eradicate the “Black Economy”.

There are hypothetically two ways in which the pre-demonetization money supply will stand altered in the new administration: one, there would be negotiators in the economy who are holding cash which they cannot explain and hence they cannot deposit in the banking system. This part of the currency will be smothered since it would not be swapped in any manner. Second, the government might indicate to replace only a part of the currency which was in circulation as cash. In the other words, the rest would be accessible only as electronic money. This could be an appliance used to force a conversion to cashless mediocre of exchange. The conceptual extent of these two components will be unraveled only over the next six months. These two would have dissimilar possessions on the economy in the short term and in the medium term, as will be sightsaw below.

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.

Objectives of the Study:

-
- To understand the concept of demonetization and the reasons behind the act.
 - To understand and evaluate the impacts of the act on the economy.
 - To Study the impact of this act on the cashless transaction of unorganized retail shops.

Aim for Less-Cash & Not Cash-Less

- Cash greatly facilitates transactions and there are legitimate high value transactions in every economy.
- The fundamental idea behind this exogenous shock is to raise the cost of illegal transactions and not going cash less.
- Going less-cash is a fine balance between maintaining ease of financial transactions and curbing malpractices.
- As cash facilitates crime because it is anonymous and big bills are easy to carry

Cashless Payment System:

As the banking system evolved, it became easier, safe and even remunerative to keep one's money in a bank account and it became still more easier and safe to use „transfer of money in bank accounts“ for making payments for the economic transactions. This was more so for large value transactions. Actually, it is now used equally for effecting low value transactions also. For effecting this transfer of money in bank accounts, a payment instrument was needed to instruct the bank to effect that transfer. This instrument was the cheque for a very long period. Thus a system consisting of the cheque as the payment instruments and an infrastructure around the cheques consisting of the drawee bank, the drawer bank and the cheque clearing houses came on the scene and were known as the payment systems. With the developments in the information and communication technology, world over, different kinds of payment instruments and innovations in the instruments and the payment systems evolved. It happened in India too and that's the story I will be narrating now. Today we can boast of a strong retail payments framework in the country comparable to that of any advanced country, and perhaps even better than some of them in terms of the variety and efficiency. Various types of payment instruments exist to meet the requirements of different users in different circumstances – bank accounts, cheques, debit and credit cards, prepaid payment instruments, etc. There are various systems to meet the remittance requirements of users depending upon their time criticality and cost sensitivity – National Electronic Funds Transfer (NEFT), Immediate Payment Service (IMPS), Aadhaar Enabled Payment System (AEPS) and recently Unified Payments Interface.

The need for making bulk and repetitive payments is met by systems such as Electronic Clearing Service (ECS), National Automated Clearing House (NACH) and Aadhaar Payment Bridge System.

How is our Payment System Infrastructure?

- India has seen a rapid disintermediation of the payments system that was once restricted to only banks and their traditional clearing facilities.
- Entrepreneurs abound in the recent digital payment interfaces such as prepaid instruments like mobile wallets.
- These will replace the traditional clearing systems such as RTGS (real time gross settlement) as also online facilities provided by banks and telecom companies.
- Unified Payments Interface is in itself a game changer and only banks have been allowed by the Reserve Bank of India (RBI) to become payment service providers keeping wallets and other prepaid instruments out, thus giving a boost to banks in the race to secure a big slice of the payments pie.

Demonization Effect on Electronic Payment System

The government wants India to go cashless, but doing so is not easy. Cashless transactions have their downsides for consumers. But, for those with access to digital payments, rejecting cashless options or hesitating to embrace technology is also not the answer, especially in the wake of the cash crunch brought on by the government's demonetisation move. Questions of access aside, a cashless world has its benefits. Embracing cashless options and being an informed consumer who is aware of the available systems and their designs increases the chances of a convenient and consumer-friendly experience. Traditionally, online transactions were done either by providing debit and credit card details or through net banking interfaces. While there were issues of security, which kept improving, the payment experience was not very user-friendly. These options were also largely restricted to computers with access to internet. But after the smartphone revolution, things have changed entirely. India has seen an explosion in digital payment options, from e-Wallets to the Unified Payment Interface to a combination of the two. There are many cashless payment options available in India. 5 Best cashless payment options in India.

- E Wallets – **E Wallets** have become very famous nowadays. After demonetisation, use of e wallets has been implemented at a very large-scale. These e wallets allow users to

make payments using your mobile number or by scanning a QR code which takes place in a jiffy. All you need to do is simply download a wallet like paytm.

- UPI –UPI also known as Unified Payments Interface is another great way to go cashless. Unified payments interface also called UPI is system of payments. Using unified payments interface, people can transact using their smartphones. To pay using this system called unified payments interface, you need 2 important things: Smartphone and a Bank Account.
- Plastic Money – **Plastic Money means debit cards and credit cards** that are used at ATM's for cash withdrawal and POS machines while shopping. Having a debit or credit cards make you burden free from carrying cash.
- Net Banking – **Net Banking** is another handy way to get cashless transactions done. All you need is a bank account with e banking facility enabled on it. You can transfer funds to others account from the comfort of your home. There is no need of going to your bank to get transfers done. You can make all payments and transfers yourself. This is a very convenient way to go cashless in India as well.
- Aadhaar Card – **Aadhaar Card enabled payment system** allows a person to pay using his aadhaar card if it is linked to his bank account. Once you link your aadhaar card to your bank, you can make payments using your finger prints.

Impacts of Demonetization and its Intentions:

1) Black Money and Corruption

By demonetization, Black money will be taken out of Indian system. As predicted by ICICI Securities Primary Dealership the government's plan to remove INR 500 and INR 1,000 notes from circulation will disclose up to INR 4.6 lakh crore in black money. Corruption will also be automatically reduced by removing black money from economy.

2) Real estate

Another impact of the demonetization would be reduction in cash transactions in real estate. This is likely to reduce to real estate prices and make it affordable. In the short term, prices of real estate would come down for the same reason above. There will be fewer suitcases moving.

3) Gold/Silver and Jewellery

After demonetization the demand for gold and other precious metals rise greatly. Because People are trying to invest their black money in gold to make it white in short period. But Demand for gems and jewellery to decline in the next two to three quarters.

4) Digital payments

People adopting online payments system such as Paytm etc. after ban for high denomination currency in India. Digital transaction systems, E- wallets and apps, online transactions using E banking, usage of Plastic money (Debit and Credit Cards), etc. will definitely see substantial increases in demand. This behavioural change could be a game changer for India in the near future.

5) Hawala

The brightest spot is the end of Hawala racket and rising property prices. Hawala is the way of transferring money from a different country to India in Indian denominations. Although illegal, the people in this racket make their money white through this process in different countries. To attract more people to remit through this form, they pay a premium over the existing exchange rates mostly for remitters from African-based nations. Come 8th November, 2016, the government scrapped all high denominations making the notes lying with the Hawala traders null and void.

6) Business

E-commerce companies saw up to a 30% decline in cash on delivery (COD) orders. Several e-commerce companies hailed the demonetization decision as an impetus to an increase in digital payments. They believe that it would lead to a decline in COD returns which is expected to cut down their costs. The demand for point of sales (POS) or card swipe machines has increased. The goods and services tax (GST), whose objective is to replace all taxes levied by the federal government and the states with one central tax.

Salient Impact on Payment Systems

Payment Mechanism	Salience of Form	Salience of Amount	Transparency	Temporal Separation	Temporal Orientation
Cash	Very High	High	High	Does Not Exist	Perception of Present-Present
Cheque	Medium	High	High	Low	Perception of Present-Present/Future

Credit Card	Medium	Medium	Medium	High	Perception of Present-Future
Debit Card	Medium	Medium	Medium	Does Not Exist	Perception of Present-Present
Store Value Card	Low	Low	Low	Medium	Perception of Present-Present
Auto Pay (Direct Debit from Bank Account)	Very Low	Very Low	Very Low	Low	Perception of Present-Present
Digital Wallet	Medium	Medium	Medium	High	Perception of Present-Present/ Future

We summarise the results of some of these studies which compare the behaviour of consumers using alternative instruments as follows:

- In a comparison of debit cards with cash, studies suggest that with the use of debit cards, the level of consumption tends to be higher.
- In a comparison of credit cards with cash, this effect is more pronounced.
- Credit cards often are associated with more spending resulting in an increase in debt as well.
- Further, spending with cards seems to encourage spending on non-essentials.

These changes in consumer behavior can have long-term consequences on the economy as well as on the budgets and lifestyles and priorities of agents in the economy. It could, for instance, lead to a ballooning of consumer debt which in turn could push the financial system towards a crisis if not suitably managed. Further, if available debt in the economy is channeled towards consumer debt, while at the same time lowering saving in the economy, it could adversely affect the investment within the domestic economy.

Conclusion:

Demonetization is an established practice in monetary policy to tackle black money. The idea of demonetization is good but it has to be taken into consideration that most of the black money is kept in the form of land, buildings or gold or kept abroad. What is in cash constitutes only 4% of the total amount of black money on which taxes are not being paid. There was need to pile up enough 100 Rupee notes and other smaller denomination notes in

the market before taking this step. People are facing problems because the limit of withdrawal has not been kept at a higher level.

If the money disappears, as some hoarders would not like to be seen with their cash pile, the economy will not benefit. On the other hand if the money finds its way in the economy it could have a meaningful impact. However experiences from different countries shows that the move was one of the series that failed to fix a debt-burdened and inflation-ridden economy.

The cashless transaction system is reaching its growth day by day , as soon as the market become globalized and the growth of banking sector more and more the people moves from cash to cashless system. The cashless system is not only requirement but also a need of today society. All the online market basically depends on cashless transaction system. The cashless transition is not only safer than the cash transaction but is less time consuming and not a trouble of carrying and trouble of wear and tear like paper money. It also helps in record of the all the transaction done. So, it is without doubt said that future transaction system is cashless transaction system.

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A study on digital India - Challenges and Opportunities

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Abstract

Digital India stands for transforming India into a digitally empowered knowledge economy. It is an initiative of government of India to integrate the Government Departments and the people of India. It aims at ensuring that the Government services are made available to citizens electronically by reducing paper work. This paper attempts to highlight the different challenges faced by the Digital India Programme. It describes the different opportunities of

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the programme for the people of the country. The digital economy is the new productivity platform that some experts regard as the third industrial revolution. This is also known as 'The Internet Economy' or Internet of Everything (IoE) and expected to generate new market growth opportunities, jobs and become the biggest business opportunity of mankind in the next 30 to 40 years. The momentum that 'Digital India' has given to our technological progress is noteworthy indeed.

1. Introduction:

India, a union of states, is the second most populous nation in the Asian region behind China. The country has achieved impressive progress in the field of science and technology and is emerging as one of the strongest economies in the developing world. Information and communication technologies have brought significant changes in the development of the Indian society through information dissemination. Digital India programme is the outcome of the changes brought by the information and communication technology. Digital India is an innovative thought of Mr Narendra Modi's government. It is an initiative of government of India to integrate the government Departments and the people of India. It aims at ensuring that the Government services are made available to citizens electronically by reducing paper work. The initiative also includes plan to connect rural areas with high speed internet networks. It is an initiative to transform the country into digitally empowers knowledge economy. The programme weaves together a large number of ideas and thought into a single, comprehensive vision so that each of them is seen a part of larger goal. It is coordinated by Deity, implemented by the entire government- both at the centre and state. Electronic commerce refers to 8wide range of online business activities for products and services. E-commerce is the use of electronic communications and digital information processing technology in business transactions to create, transform and redefine relationships for value creation between organizations and individuals. The project aims to connect the 2.5 lakh villages across India through broadband highways, public internet access, universal access to mobile connectivity, 10 13e-governance, e-kranti, information for all, a robust electronic manufacturing regime, early harvest programmes, and IT for jobs—known as the nine pillars of Digital India. The cost of this project is estimated at Rs 1,13,000crore. The Digital India Advisory Group will be chaired by the Cabinet Secretary and monitored by the Prime Minister and his office. For the

Digital India initiative, the original design and programme content of the e-governance project have been distinctly improved upon.

1.1 Vision of Digital India

The vision of digital India is centered on three key areas. They are as follows:

1. Digital infrastructure as a utility which seeks to provide every citizen with high speed internet facility, a cradle to grave internet identity, mobile phone and bank account, access to common service centre, sharable private space on a public cloud and safe and secure cyberspace.
2. Governance and services on demand which will be available in real time for online and mobile platforms, seamlessly integrated across departments and jurisdictions. All citizen documents to be made available on the cloud platform; as a result, citizens will not be asked to produce such documents for availing services. In addition, the provision of cashless electronic transactions will help generate business. Geographical Information Systems (GIS) will be integrated with the development schemes.
3. Empower citizens, especially rural citizens, by making them digitally literate. This will be done through collaborative digital platforms and by making available the digital resources in their native language with a view to making their participation a reality. It will help tap into the data that will be freely available on the cloud computing platform— independent of an intervention.

1.2 Projects under Digital India Programme

Under digital India programme the Government of India has undertaken some 7 projects. These projects are as follows:

- a) Digital locker system of the digital India programme will help citizens to digitally store their important documents like pan card, passport, mark sheets and degree certificates. It will help to minimize the usage of physical documents and will provide secure access to Government issued documents.
- b) Another key projects under Digital India programme is My gov.in which has been implemented as platform for citizen engagement in governance, through a “Discuss, Do and Disseminate” approach.

- c) Swachh Bharat Mission Mobile App is one of the projects of Digital India programme which will help the people and the government organization for achieving the goal of Swachh Bharat Mission.
- d) e- Sign framework would allow citizens to digitally sign a document online using Aadhar Authentication.
- e) Online registration system under the e- Hospital application has been introduced. This application provides important services such as online registration, payment of fees and appointment, online diagnostic reports, enquiring availability of blood online etc.
- f) National scholarship portal which will put an end to elongated scholarship process.
- g) The Government of India has undertaken an initiative namely Bharat Net, a high speed digital highway to connect all 2.5 gram panchayats of the country. This would be the world's largest rural broadband connectivity project using optical fibre.
- h) BSNL has introduced Next Generation Network, to replace 30 years old exchanges, which is an IP based technology to manage all types of services like voice, data, multimedia/video and other types of packet switched communication services

2. Objectives of the study:

The paper has the following objectives:

1. To Study the concept of Digital India Programme.
2. To study the opportunities of the programme for the people of the country
3. To study the various challenges faced by the Digital India Programme in its implementation

3. Methodology:

An attempt has been made in this study to analyze the secondary data available in the field of study.

4. Analysis of the Objectives

4.1 Concept of Digital India Programme: Digital India programme is consisting of nine pillars. They are as follows

- (i) Broadband Highways : it contains
• Broadband for all rural: it will cover 250,000GP and its expected time line is December 2016.
• Broadband for urban: Virtual network operator for service delivery and mandate communication infrastructure on new urban

development and buildings. • National information infrastructure: this programme is integration of SWAN, NKN, NOPN.

- (ii) Universal access to phones: The expected time for this is FY2014-18
- (iii) Public internet access programme: Under this programme the post offices becomes multi service centres.
- (iv) E-governance reforming government through technology: This pillar includes Government business process Re-engineering using IT to improve transaction and Electronic databases in which all data bases and information to be effective not manual.
- (v) E-kranti electronic delivery of services: E-Kranti will include technology for education, technology for health, technology for planning, technology for farmers , technology for security, technology for financial inclusion and technology for justice.
- (vi) Information for all: it will include online hosting of information & document. Government pro-actively engages through social media and web based platform to inform citizens about MyGov.in and 2 way communications between citizens and government and online messaging to citizens on special occasions/programmes
- (vii) Electronic manufacturing target net zero import: Under this pillar the focus areas are Fabs, Fab-less design, set-top boxes, Vsats, mobiles, consumers and medical, electronics, smart energy meters, smart cards, micro –ATM.
- (viii) It for jobs: It will include train people in smaller towns and villages for IT sector jobs, train service delivery agents to run viable business delivery IT services, telecom service providers to train work force to cater to their own needs.
- (ix) Early harvest programmes: IT platform for messages, Government greetings to be E-greetings and Biometric attendance.

4.2 Opportunities of Digital India Programme

Though Digital India programme has faced many challenges in its implementation but it has some prospects which are mentioned below –

1. It would bring in public accountability through mandated delivery of Government services electronically.
2. Digital India programme will put an end to corruption system which becomes the main feature of the country.

3. Digital India programme aims to reduce paper work which will help to save trees & protect environment.
4. National scholarship portal, a project under Digital India, will put an end to scholarship process right from submission of student's application, verification, sanction and disbursal to end beneficiary for all scholarships provided by The Government of India.
5. It benefits people of India in every village in terms of knowledge improve by 5using internet in day to day life.
6. Each person will be having bank account.

4.3 Challenges of Digital India:

Almost everyone on Facebook changing their profile pictures to support digital India but to make it reality here are list of challenges in the implementation of digital India. Challenges are in every sector right from policy making, changing the work flow up to changing the mentality of the government officers. It is technological change within the most diversified nation. Few of them have been listed below:

1. **High level of digital illiteracy:** Digital illiteracy is prevalent in most of the towns and villages in India. Cities have adopted digitalization but limited to certain extent. Full fledged digitalization is cashless transaction on daily basis, use of internet services to get government certificates. This requires administration changes, Taxation changes and change in public mentality. So its a team work which includes citizen's responsibility and support to the new system.
2. **Connectivity to remote areas:** It is a mammoth task to have connectivity with each and every village, town and city. The problem of connectivity is a complex issue because every state has different laws pertaining to its execution. Also it is challenging for the central authorities to make a database where such a huge information can be stored.
3. **Compatibility with center state databases:** Every state has different internet protocols because every state is diversified. Diversified not only in the sense of religion but also in language. Hence software compatibility with the center is a crucial issue. Information shall be saved carefully.

4. **Cyber Crime:** There is cyber threat all over the globe and digital India will not be any exception. Hence we need a strong anti cyber crime team which maintains the database and protects it round the clock
5. **Inter Departmental Co ordination:** Within the government there are various departments which should be integrated. Integration has technical as well as corporate issue. Corporate in the sense self ego of the officers and staff of our government services are hurdle in the change. Also the middle man policy will be eliminated completely because of digital India, hence there will be imminent resistance from the working staff.
6. **Finance:** Though there are resources with India but there is a huge capital cost which is to be invested and the fruits of the investment will be received after few years.
7. **Net neutrality:** The issue is still on the table and we are blindly following the digital India. Net neutrality is must and we should make sure that digital India without net neutrality would be a great blow to entrepreneurs and citizens of India.
8. **Changing the mindset:** This point will come into picture when you have allocated the required resources and material but when it comes to implementing them, most of them will be hesitant to change. People are accustomed with years of same of practice that they are not ready to change.
9. **Exchange of information:** The information stored should also be used by other government offices. For example police, surveillance and other security issues can be easily resolved with digital India but its co ordination is a mammoth task. It is not only a technological question but also deals with the question of privacy and security.

Challenges:

A Digital India Year would make sure that each and every aspect of the programme is pushed to show results on the ground and not go into hibernation after one week of enthusiasm. Considering that most of the nine pillars There are several questions that hit our thoughts regarding “Digital India” week. Firstly, why are we using the term ‘week’? If we are in a mission to accustom every single Indian to digitally literate, then it might take years or rather decades. In order to keep the momentum at par and mission fruitful of the Digital India programme face serious challenges in implementation since the question of continuity is always at stake, thus it is crucial that focused and persistent attention would be given to each

of its pillars so that it does not embarrass at the end of the day. We would like to highlight few challenges of the ‘Digital India’ programme:

- **Implementation:** The entire programme is designed as a top level model on the technological front. There is hardly any guidance on how to implement the same on the ground level to make it successful. To be precise, most of the nine pillars of the programme are directly related to high-end consumers and not for 70% (almost, according to 2013 – 2014 survey) of the rural population in India.
- **Deploy W-Fi Centers & Hotspot:** BSNL’s (Bharat Sanchar Nigam Ltd) mass deployment of Wi-Fi hotspots across the country. If the government pushes BSNL to ensure at least one hotspot per village, it can do wonders and experience the positive outcome. However, if the selection of the hotspot locations were those populated by mostly tribals, backward castes, minorities and geographically difficult areas, then the impact can bring a new era in our country.
- **Improve IT Literacy:** Improving IT literacy is very important because the entire mass who is using internet should know how to secure his/her online data. Providing proper usability guidance of Anti-Virus software and its role in securing the records should happen simultaneously.
- **Data Vulnerability:** Each and every citizen of India would have all the personal details online including bank details, Income tax details, PAN details which might be vulnerable if not secured properly. In case this is breached, then any individual would lose the privacy of the data and would be compromised.
- **Excessive server Hits:** If majority of the population start using online, then definitely the Government portal sever will start getting more number of hits day by day. This is limitless and the IT team needs to be prepared enough to tackle the situation where the possibility of crash would minimize.
- **Man-In-The-Middle Attack:** It is a type of cyber-attack where a malicious actor intrudes him/ herself into a conversation between two parties, imitates both parties and gains access to information that the two parties were trying to send to each other. A man-in-the-middle attack allows such intercepts of the data meant for someone else, without knowledge of either of the party until it is too late.

Security:

It is necessary to overcome all the challenges mentioned above with the help of a proper IT security solution like eScan. With so many people connected to such numerous networks, data security will definitely become one of the priorities of the Government. Since all the departments like Income Tax, LIC, Election Commission, Passport Dept – will have ample sensitive data of citizens, thus there is a high possibility of data breaches once majority of the population become digitally literate. The herculean task of securing all the W-Fi hotspots and data centers should be taken into consideration seriously. eScan Anti-Virus products for home users, small and medium business and even corporates can offer complete protection to the networks and successfully materialize the dream of an ideal “Digital India”!

Conclusion:

Government will do well to take into account the recommendation of the council on Digital Government strategies as entrusted in the OECD 2013 Ministerial Council Meeting while considering the agenda on “ trust in Government: evidence, policies and decision making” at this stage of implementation of Digital India programme. The programme, which has been conceived at the behest of the highest level in political hierarchy, foresees inter-ministerial co-operation and collaboration towards the outline priorities with the expectation that relevant agencies across levels of Government would engage themselves in pursuing the Digital India agenda. The elements of the Digital India programme accommodate all of the recommendation of the OECD referred above. So in the theoretical framework, the Digital India programme will be a state of the art network. How far the strategy would yield result in meeting the desired objectives would largely depend on factors which are outside the realm of technologies and tools for digitization. These are rooted in the organization maturity and commitment of the systems within the government and also dependent on public support, overcoming the shackles of historical and cultural traits and the installed wisdom which feels threatened with the transformation that will sweep them off their feet. For successful implementation of Digital India Programme involves lot of hindrances but in the present global context there is no second thought. Therefore it is highly expected to expedite the initiation of the digital India Programme.

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Demonitisation and Digital Payments Rural India

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Abstract

Demonetisation of high denomination currency notes of Rs.500 and Rs. 1000 was a step taken by Prime Minister Narendra Modi to obliterate black Money and flush out fake currency in circulation in the economy. The objective of this paper is to have a comprehensive view of this measure, its impact on general public and economy as a whole. Various write ups of eminent personalities, recent news in newspapers and various websites have been consulted to write this paper. It concludes that this measure may act as a negative shock to the economy in

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the short run. The government should make efforts to improve the circulation of cash in the economy because access to cash is very-very important for marginalized sections of society. It will take time to convert cash-based economy to cash less economy.

Rural India has significant impact on the economic progress of the country, and with the emerging changes of ICT penetration, and the impact of demonetisation, alongside the digital initiatives carried out for rural segments, the need for improving the trends of digital payments model in rural India is very important. Considering the benefits like transparency in transactions, scope for curtailing parallel economy and improving the ease of business, it is very essential that the transformation towards digital payments, even in the rural economy is empowered. Some of the revolutionary developments in the recent past like launch of many digital wallets like – Paytm, Mobiwik, Free Charge etc. and government launching many UPI (united payment interface) solutions and BHIM app for smooth transition to digital payments, there are significant developments taking place.

Keywords: *Digital payment, Rural India, BHIM, Digital Divide, Government, Digital transactions, Demonetization,*

1. Introduction

Demonetisation is the process of removing currency from general usage or circulation. In India's case Government completely withdrawn the currency with the denomination of 1000. Along with 1000 currency notes 500 rupee notes were also withdrawn from circulation. For the old 500 currency notes new 500 rupee notes will be issued and a new currency note of 2000 denomination has been introduced in the economy. New currency notes issued to the public through commercial banks and post offices across India by depositing the demonetised currency notes by the people.

Indian economy is one of the fast growing economies of the world. Despite of global turbulences of economic conditions, Indian economy has been focusing on development. In the recent past, there are significant developments that has taken place in the Indian financial system, which has led to huge transformations, trends and changes in the business dynamics .Though the government of India has been focusing on the digital transactions initiatives since last few years, the actual impact of digital payments has taken place in India in significant

manner post the demonetization period. India economy has the intrinsic structure of rural and urban economic developments. Majority of the Indian economy depends on rural economy, and only when the digital payment methods become an integral part of rural economic development, the digital initiatives could be considered as successful.

In the recent past, digital payments has gained momentum in the country, both in the case of rural and also the urban segments. India has predominantly been a cash driven economy and the culturally the deep rooted trends of cash based purchases has widely been the economic culture. In wake of the government initiatives towards transformation towards digital economy, and many private companies emerging in the space of digital transaction solutions like the E-Wallets, Mobile app solutions (UPIs), payment bank licenses issued by RBI, it is imperative that the market is gearing up towards more transparent and compliance based system, and of digital trends. For successful implementation of digital transactions and digital banking system, certain key processes that are very essential are net/mobile banking, more of ecommerce presence in rural segments, digital transaction solutions like the PoS solutions usage in merchandise, usage of plastic currency etc. But the crux factor that has to be taken in to consideration is about how effectively the system is adaptable in the rural segments of the country, considering the opportunities and challenges according to the existing scenario. In this research paper, the emphasis is on gaining insights in to the opportunities and challenges that are envisaged in the digital payments system penetration in to rural segments.

2. Digital Payments in Rural Sector

Rural sector holds significant importance in the economic development of the country, and in the recent past, many fin-tech companies are focusing on rural markets to increase its operational base. For instance, many of the mobile wallets and ecommerce companies are focusing on the rural locations and are adapting strategic approach towards attaining a good market share. Also, some of the recent developments like the demonetization and its related impacts have led to huge transformation in the market dynamics. Unlike the pre-demonetization period where very few merchants and consumers from rural segments were using the digital payment solutions, post demonetization has seen exponential growth in the number of users using PoS and digital payment Interface. Timed issuance of payment banks, easing the norms of mobile wallet transactions, increasing the bandwidth to rural locations, and government encouraging public with incentive schemes for using the UPI (United Payment

Interface), reducing the service tax over digital transactions over government e-services signify that there is huge transformation taking place towards digital payments.

2.1 Opportunities for Digital Payments

Digital payments in India are at nascent stage, and there is a push from varied quarters towards adapting the platform of digital payment solutions. Some of the reverent steps that has been incorporated in the recent past towards improving the scope of digital payments are:

Limiting the scope for cash payments

1. RBI has regulated the cash payments in a phased manner. For example, imposing restrictions and tax on cash purchase of jewellery beyond a rescribed value.
2. Imposing transaction charges for cash payments for payment to vendors, suppliers and services etc.
3. Imposing higher transaction charges for banking transactions like cash with draws, deposits etc.
4. More scrutiny over the cash transactions

Launch of More Digital Payment Solutions

- Though India is cash based economy, slowly the transition has started towards digital economy.
- RBI issuing payment bank licenses to many fin-tech companies like Paytm and many competitive mobile wallet solutions emerging from existing banking companies lead to foray of digital payment options available for stakeholders like merchants and consumers
- Strategic launch of UPI solutions like BHIM by Government of India, to enable hassle free digital transactions on a government platform leads to more secured platform for consumers.
- Aadhar based payment solutions that are emerging strongly in to the Indian market signifies potential scope of carrying out digital payments even with feature phones.
- In a recent report published in collaboration by CII and Deloitte, the study emphasize that there is significant raise in the demand from consumers for digital payment modes.
- Many merchant establishments are keen on using the digital payments as the solution for retaining the customer base.

Incentivising Consumers

- ❖ Many private digital wallet companies are offering value added services to the customers
- ❖ Consumers are offered value proposition in terms of ease of usage, cash back offers, discounts for using their mobile wallet platforms etc.
- ❖ Government announcing various incentive schemes and reward programs for the consumers, to attract them towards digital payments
- ❖ RBI reducing or terminating the cross transaction cost for the bankers and UPI solutions to encourage them reduce the cost of transaction to the end users
- ❖ More PoS solutions being procured and made available to the merchants are significant step towards improving the system.
- ❖ Launching awareness programs, and encouraging as many feasible ways (like feature phone based digital transfers facilitated using Aadhar card etc.) has led to way where more number of shops and establishments considering the digital payment solutions in rural sector.
- ❖ Incentives allotted by Govt. as discounts for fuel purchase using the digital payments like debit/credit cards in the outlets signify the strategic approach towards encouraging digital transactions.

2.2 Market Drivers

It is imperative from the recent reports that there is significant development in the case of digital payments that are taking place. Some of the key and influencing factors that are supporting the digital transaction processes are:

- Compared to the earlier trends, in the current scenario the process of mobile banking, IMPS solutions and other such related developments has got simplified.
- Increasing number of ecommerce companies offering their services in the rural segments also are the other key element that is driving the digital transaction solutions.
- Direct and indirect initiatives from government towards improving the banking ease, compliance standards and other such factors play a key role in the process.
- Few of the significant initiatives like issuance of “RuPay cards” linked with Jan Dhan accounts (Zero balance accounts) opened up in massive scale, Kisan Credit cards issued to the farmers, drive in terms of enabling PoS solutions to rural merchants etc. has

created fundamental platform that is essential for gaining momentum of digital payments in the rural segment.

3. Challenges of Implementing Digital Transactions in Rural Markets

Prior to the demonetization period, usage of digital payments was an option. However, in the rural market segment where cash was the king, the option of digital payments was exercised by very few retail outlets and also the consumers were wary of using such trends. Though, with the rampant penetration of ICT such trends has been changing, still the quantum of digital payments has gone up significantly post the demonetization period. Phenomenal developments has taken place in the process of digital payments and many mobile wallet companies, PoS service providers, ecommerce players, and government initiatives has been focusing on improving the digital payment solutions. But some of the significant challenges that is thwarting the desired growth and propelling the market towards digitization are:

3.1 Macro Level Challenges

- Consumers are yet to get rid of the cash based transaction habits, as for decades India have been cash based economy.
- Digital divide in terms of awareness about using the digital solutions like Smartphone based transactions, feature phone based transactions, usage of credit/debit cards at PoS solutions etc are some of the key issues.
- Such instances signify that the digital payments modality can only be practical and true to nature, when the loop holes like connectivity, adequate PoS solutions and other such factors are addressed in quick turnaround time.
- Availability of PoS solutions has also become a challenging issue. As the demand for PoS solutions has raised in a compounding way, and the demand is not adhered too, fast track progress of digital payments are getting impacted in rural locations.

3.2 Consumer Challenges

Trust factor is one of the integral challenges to growth of digital payments in rural sector. Irrespective of whether it is attributed to emerging information security challenges, or lack of awareness of the consumers, still the challenge of gaining the trust of consumers is one of the key challenges facing the mobile wallets, digital transaction service providers like banks, fin-tech companies etc

3.3 Business Limitations

In India, the modality of digital payments is at nascent stages and there is considerable need for more effective laws, guidelines, and compliance trends that can support in improving the process. Supply of PoS solutions in the market, leverage of technology, ease of compliance terms is also essential in encouraging more retailers, merchants and professionals to embrace the solution more effectively. Reconciliation of transactions for merchants from the banks, taking considerable time is the other key challenge impacting the acceptance of digital payments by the merchants. Transactional issues like merchant accepting the digital payments from consumers, and in turn vendors and suppliers not accepting digital payments from such merchants are the other level of hurdle impacting the growth of digital payments in rural segments. If the above issues are addressed in an effective manner, certainly the outcome can be more resourceful in improving the effectiveness of digital payments in the rural economy and attaining the objective of digital and cashless economy.

4. Conclusion

India is among the fast emerging as one of the largest and strong economies. For sustained development and growth with robust economic development, certain integral factors like improved transparency, corporate governance and restricting the parallel cash based economy. Such developments could be feasible only with rural India too embracing the digital payments and digital transactions. Considering the quantum of opportunities that are unfolding for market dynamics of digital payments, if the challenges that are discussed are addressed and improved solutions in terms of UPIs, mobile wallets, and digital transactions with more secured features, ease of transactions and reduced cost of managing the digital payments could lead to more potential developments and supporting in improved conditions of digital payments processing in rural sectors. In terms of capitalizing on the opportunities, it is very essential that the solutions has to be more robust and following are certain key policies that has to be in force for effectively implementing the digital payment solutions across the rural sectors.

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A Study on Impact of Demonetization on Cashless Payment System

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Abstract

For every economy, money is considered as the life blood. Money emerged when the unlimited wants of humans were not met through the barter system. Money forestalls “the double coincidence of wants”. Demonetization strips a currency unit of its status as a legal tender. On 8th November, 2016 around 8 p.m., the Prime Minister of India brought the demonetization with the statement that with effect from 9th November 2016 Rs.500 and Rs.1000 rupees’ currency notes are invalid except in some essential services for the time being. The demonetization has several aims of eradicating black money, removing counterfeit notes, stopping money laundry and so on. Apart from these direct and primary aims it focuses on encouraging cashless transactions as well. Cashless transaction uses credit and debit cards, online payment gateways and digital wallets for financial transactions. This conceptual paper attempts to study the demonetization process in India and its impact on cashless transactions.

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Key words :Demonetization, Cashless payment,

Introduction

The demonetization of the highest denomination currency notes is part of several measures undertaken by the government to address tax evasion, counterfeit currency and funding of illegal activities. The requirement to deposit currency notes in excess of specified limits directly into bank accounts has resulted in the declaration of hitherto unaccounted income, subject to higher tax and other penalties. India has one of the highest levels of currencies in circulation at over 12% of GDP and of this cash, 87% is in the form of Rs500 and Rs1,000 notes. Globally, this is not unusual as the central banks of several countries pump massive amounts of cash into the economy, mostly in very large denominations. Facilitating faster payment services The payments eco-system in the country provides multiple options to different segments of users for funds transfer as well as for making payments in exchange of value for goods and services. With increasing adoption of electronic payments, particularly those driving e-commerce and m-commerce, there is a growing demand for faster payment services which, in turn, facilitate ease in doing financial transactions.

Review of Literature

Annamalai, S. and Muthu R. Iyakkuvan (2008) in their article “Retail transaction: Future bright for plastic money” projected the growth of debit and credit cards in the retail transactions. They also mentioned the growth factors, which leads to its popularity, important constraints faced by banks and summarized with bright future and scope of plastic money.

Alvares, Clifford (2009) in their reports “The problem regarding fake currency in India.” It is said that the country's battle against fake currency is not getting easier and many fakes go undetected. It is also stated that counterfeiters hitherto had restricted printing facilities which made it easier to discover fakes.

Objective of the Study

1. To know the objectives of demonetization
2. To know the impact of demonetization on e commerce

Methodology of the Study

For the purpose of study the data has been collected from secondary sources

Secondary data:

The main source of secondary data is journals and websites. The other information is being collected from various articles and encyclopaedia.

Objectives of Demonetization

1. Aimed at combating corruption and check black money and fake currency notes 1000 and 500 were put out of circulation and effect on parallel economy
2. ALL the bank accounts are tied up to one PAN(Permanent Account Number)
3. This move shows strength of the banking system, retail boost,and increases deposit
4. This moves will also cause short term pain for the working class, small businesses and nearly anybody who deals with cash on a daily basis
5. Remove black money from the economy as they will be blocked since the owners will not be in a position to deposit the same in the banks.

Demonetization and Cashless Payment System:

The mobile wallets and digital payment happen to be the clear winner since demonetization. Paytm's traffic had increased by 435% and its downloads by 200%. Paytm is India's leading mobile wallet which allows users to make transactions "at 850,000 places across 1,200 Indian cities, including mom and pop shops, branded retail outlets, and petrol pumps. The paytm calling the Prime Minister decision on demonetization as a firm stand and advertised on the newspaper like: "boldest decision in the financial history of independent India". The troubles caused by demonetization paved way for plastic money and cashless transactions at a larger scale. Altogether the online transactions in India gone up by 250 per cent post demonetization. The recent acceptance of e-transactions by people gave scope for e-banking in our country. There is a tremendous increase in mobile banking and Immediate Payment System (IMPS) usage in India post demonetization.

According to India-spend analysis of RBI, the mobile banking transaction had grown by 175 per cent and the amount transacted had grown up by 369 per cent in the past one year. There is a 3 times increase in in Rupay transactions on point of sale to 10 lakhs a day, which is three times more than the normal transaction count. Post demonetization, the card transactions in India boosted up by 133 per cent. The 120 crores worth transactions were witnessed by seven

million transactions daily in paytm and 15 lakh people of India started using cards (mostly debit cards). The growth of usage of debit cards doubled after demonetization.

The government of India wants its people to cashless but it has its own pros and cons. Earlier, the online transactions were done only through debit and credit cards or through net banking. These options always had the issues of security and were not user-friendly. After the smart phone revolution, there is a explosion in digital payment options. The Best five cashless payment options in India are as follows:

- 1) **E Wallets** – E-wallets became very much popular nowadays. These e wallets make use of phone number or the QR code and the transactions will be done in matter of minutes.
- 2) **UPI** – Unified Payments Interface is another great way for cashless transactions... Through UPI we can transfer the amount very easily all that we need are two important things, Smartphone and Bank account. The recent app developed by National payment corporation of India, based on UPI, is BHIM.
- 3) **Plastic Money** – The Debit and Credit cards which are used for transactions in ATM and in Point of Sales are known as the Plastic money. This plastic money reduces the security issues of carrying the liquid cash.
- 4) **Net Banking** – Almost all banks provide the Net Banking facility to its customers. All that the customers need to do is to enable the e-banking facility for their bank account to go cashless. By this most convenient way, the customers can do all their transactions without visiting the branch. We can make payment, transfer and receive amount by ourselves through this e-banking facility.
- 5) **Aadhaar Card** – By linking the Aadhaar card to our bank account we can make use of Aadhaar card enabled payment system. After linking our Aadhaar card to our bank account, we can do our transactions by means of our finger prints.

Advantages of Cash Less Transactions

The cashless transactions provide benefit in long run and it changes the deep rooted behaviour among the people.

- 1) **Cost effective to Banks:** If a transaction is done manually at the branch of the bank it costs Rs.40 to 45 but if the same transaction is done through online it costs roughly Rs.7 to 8. This reduces the cost of operation for the banks and also makes it convenient for both banker and the customer

- 2) **Low time Consumption:** Apparently the cashless transactions reduce the time consumption for the customers and also it minimizes the count of customer complaints. The customers, with the help of various options for cashless transactions, transfer or receive the amount in matter of minutes and saves the time of visiting and carrying out the transactions in the bank branch.
- 3) **Safe and Secure:** Cashless transactions provide high end security by means of availing the facility of fingerprints and One Time Password (OTP) for every transaction.
- 4) **Up-gradation of technology:** The shift from the conventional banking to cashless transactions brings technological advancement. The banks increase their ATMs, PoS machines count and various other features in the e-banking domain periodically.
- 5) **Control of Black Money and check for Anti money laundry:** There is a traceability feature in e banking unlike the cash transaction so it is easy to check the anti-money laundry and black money circulation in the country. It reduces many financial scams in our country and enhances the proper economic growth.

Conclusion

The growth of the cashless transaction system is reaching new heights. People tend to move to cashless transactions. It is right to say that the cashless system is not only a requirement but also a need for the society. But on the other hand, the risk of cyber-crime is very much higher as almost all the cashless transactions are done over internet. So proper and complete awareness must be made to the people to keep their debit and credit cards safe and to use the internet banking and the digital wallet in a most secure way. In order to punish the cyber criminals, the properly structured cyber police force with high end forensic labs and technology must be created.

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Demonetisation: A Step to curb Black Money and Corruption

Dr. Supriya R⁶⁶

Introduction

On 8th November, when the prime minister announced that the notes of higher denomination would be outlawed with immediate effect, currency notes worth nearly Rs 14.5 lakh crore became illegal unless deposited in banks or used for select services.

When the government outlawed the notes, it was said that the so-called demonetisation would Help achieve three objectives:

- a) Unearth black money stashed as cash,
- b) Curtail funding of terror networks and
- c) Destroy counterfeit currency

It is evident that since the Rs 500 and 1000 notes are no longer legal tender, hoarders of unaccounted money will be sitting on worthless paper. Of course, the government has made it possible for them to hand over all their money at penal rates of tax but it is unclear if many would want to do this as they would have to explain the source of their funds. There are two problems with the approach. First, not all hoards of cash are black money. Some – especially people in rural areas and those who do not use the formal banking systems – hold cash that is perfectly legal. These stashes are maintained to take care of medical or other emergencies that are a common part of life. The demonetisation has unnecessarily punished such people. Aware of this, the government has made arrangements for them to deposit money into banks, under

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the provision that amounts up to Rs 2.5 lakhs will not being subjected to any kind of scrutiny. This may have presented an opportunity for those with black money to convert it into white. It is evident that people have already attempted this with many reports detailing how Jan Dhan accounts with almost zero balance have shown a spurt in deposits since demonetisation was announced on November 8.

Secondly, there is reason to believe that persons holding black money have converted the cash into legitimate assets, such as gold, sales of which have surged since demonetisation was announced. But the idea that people with unaccounted income keep it in the form of cash is suspect. They usually try to convert it into assets to escape detection and to avoid losing its real value to inflation.

Trying to get at black money through demonetisation is not very sound, as it can hurt the innocent but, more importantly, may be a case of closing the stable door after the horse has bolted.

An end to corruption?

The prime minister has presented the case for demonetisation in terms of rooting out corruption. Of course, to the extent that hoards of black money have been demonetised, corrupt activities of the past have been punished. But there is nothing in the scheme that can prevent corruption in the future. In fact, days after the announcement, Gujarat's anti-corruption bureau caught two officials from the public sector organisation Kandla Port Trust for demanding a bribe in new currency for the clearing a consignment of goods. Since then, far greater stashes have been unearthed in raids in Chennai, Karnataka and Delhi.

This points to two things. First, periodically changing the currency in circulation can do little to eliminate corruption at its source, for which it is necessary to target the very generation of unaccounted income. In order to target unaccounted income it is necessary to re-engineering the manner in which the government and citizenry interact, with a public record and independent oversight of each interaction. This is not difficult to achieve. There must be a provision for the citizen to register with the government any demand for gratification made by a member of the bureaucracy. To ensure that frivolous or malicious allegations are not made, anonymous complaints ought not to be entertained and all complaints should be made public.

Secondly, as most black money is believed to be in generated in the registration of properties, details of all property transactions – including names of the two parties and the

value of the sale – must be entered on the concerned public authority’s website as soon as the deal is concluded. In today’s IT environment such transparency is easy to achieve. The possibility of public scrutiny, as opposed to that of the income tax department in private, would make a difference to the generation of black money. It should also provide some relief to citizens who are otherwise at the mercy of an unaccountable bureaucracy.

If the Modi government is serious about ending corruption it must lay out a plan for ending the generation of black money in the interaction of the citizen with the government machinery, including the income tax department itself.

The potential of demonetisation in eliminating corruption is limited. Corruption thrives because surveillance and enforcement by public authority is weak. But we cannot ignore the role of social norms while seeking to end corruption in India. Corruption exists partly because it is tolerated by society. In India, personal freedoms are highly regulated by social sanctions. This repression is mostly justified by references to religious sanctions and cultural traditions. By comparison, there is no shame in amassing illegal wealth or moral injunction against the giving or taking of bribes. It is seen as purely transactional and has no moral resonance whatsoever. This leaves a role for civil society to fill in ending corruption. It would be populist to ignore this.

The demonetisation of currency after a long period of 38 years was a welcome and bold step taken by the Government of India on November 8, 2016. The last demonetisation was implemented in 1978 by withdrawing Rs 1000, Rs 5000, and Rs 10,000 notes that were in circulation. Every reform will have its merits and demerits. The question is whether the merits outweigh the demerits. A careful analysis is required to answer the question.

Black Money and Counterfeit Currency

The Modi Government has taken the bold step of demonetisation of Rs 500 and Rs 1000 notes in circulation with the intention of curbing terrorism, black money and counterfeit currency. Over the last seven decades, each has reinforced the other. The Prime Minister himself claimed this in his forty- minute speech to the nation. In his own words, “... on the one hand is the problem of terrorism, on the other is the challenges posed by corruption and black money.” The big bet in demonetising is to break the unholy nexus of corruption, black money and terrorism.

It is expected that the problem of counterfeit currency can be addressed at least for a short period, until anti-nationals develop the technology to print the newly issued currency.

This is not a simple advantage. Once counterfeit currency is curbed, the intensity and spread of terrorism can be addressed. Quoting Modi's words, "... the five hundred and thousand rupee notes hoarded by anti-national and anti-social elements will become worthless pieces of paper." We do not have clear statistics regarding fake currencies. A study in 2015 showed that at any given point of time, Rs 400 crore worth of fake notes are in circulation (The Indian Statistical Institute, Kolkata, 2015). It also said that Rs 70 crore worth of fake notes are pumped into the economy every year. The National Crime Records Bureau (NCRB) revealed that various enforcement agencies seized 1,78,022 pieces of Rs 1000 and 2,99,524 pieces of Rs 500 notes in 2015. To that extent, it will address the problem of terror financing and fake currency. Naturally, this will be a blessing for the common man and the middle class. The same advantage cannot be reaped in the case of black money.

Demonetisation will not act as a successful strategy for curtailing black money, as the major chunk of black money is invested with financial institutions outside the country. But it is a useful tool to make black money, reserved by anti-nationals in the form of currency, non-legal tender and valueless. It is true that those who have bought land and housing property, gold and jewellery, art treasures etc using black money cannot be penalised through the demonetisation process. It must be remembered that no country has enacted a reform that would help cure all problems. However, a detailed investigation is needed to evaluate the effectiveness of demonetisation on controlling black money.

A Note on Black Money

Two central issues with black money are, 'Who has it?' and 'How much do they have?' What are the major sources of black money? There is no clear data on the quantum of black money in Indian economy. Estimates vary from 10 to 40 per cent of GDP, i.e. anywhere between \$100 billion to over \$400 billion. According to the Government of India (2012), the extent of black money is somewhere between \$500 billion and \$1400 billion. Certain estimates show the following statistics:

- Rs 45 lakh crore (FICCI, July 2012)
- Rs 7,24,000 crore or \$1.4 trillion (Professor R Vaidyanath)
- Rs 24.5 lakh crore or \$500 billion, as on February 12, 2012 (A P Singh, CBI Director)

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- Rs 9,295 crore stashed in Swiss banks by Indians (White Paper, GoI)
 - An average of Rs 1,36,466 crore or \$27.3 billion stashed annually during 2002–06; which means about Rs 6,92,328 crore or \$136.5 billion hoarded in the five-year period (Global Financial Integrity Report, 2006)

Black money is accumulated through different sources. The three main sources of black money are corruption, hawala and crime. Among these, corruption is the chief villain.

Black money

If one goes by the evidence available so far, demonetisation and the subsequent income declaration scheme have been largely a non-event for the black money hoarders and, in some cases, a boon to legitimise their ill-gotten wealth. As such, only a fraction of the total black money in the system as in the form of cash — something economists like Arun Kumar have been pointing out. There is a strong possibility that even those cash hoarders would have found a way to salvage their ill-gotten wealth using multiple benami accounts and using the Pradhan Mantri Garib Kalyan Yojana (PMGKY), with minimum loss and punitive action.

Under PMGKY, tax cheats were asked to pay a 30 percent tax plus 33 percent surcharge on the tax and a 10 percent penalty was proposed to be levied on the undisclosed income in the form of cash and deposits. Also, he had to deposit 25 percent of the black money in an interest-free deposit scheme for a period of four years. Arguably, this made some sense for crooks since if they fail to do this and get caught later the tax plus penalty could go up close to 140 percent and prosecution.

But, even under PMGKY, the government did not have much luck. It managed to garner just about Rs 2,300 crore through this exercise while the estimates on black money in the economy were ranging above a lakh crore. The tax department is said to have identified 18 lakh people where cash deposits do not match their income profiles. But, there is a long wait before we see any result here considering the staff constraints of the I-T department and magnitude of the exercise.

In his book, ‘Understanding the Black economy and Black money in India’, noted economist and former JNU professor Arun Kumar wrote that “Only a small amount of the black money would be affected by demonetisation... it is unlikely that black marketeers and other generators of black money will suffer because the biggest fish were able to quickly convert whatever black cash they had into white.”

The initial hope of the Modi government was that that not all money will returned to the system post demonetisation as black money hoarders will run for cover. This amount of cash which will get extinguished outside will reduce the liability of the RBI and the government will, thus, benefit from a bonanza. But, this expectation fell flat when almost all money returned to the bank counters. Even after 4 months of the closure of the deposit window for public, the RBI has not come with the final count of money deposited post demonetisation. The last time it did so was in December when the central bank said Rs 12.4 Lakh crore deposits have come to banks as on 10 December. After this, the RBI has maintained that it is still counting the cash and has not disclosed any number.

Corruption

Even in the beginning, there were not too many takers for the Modi government's claim that tackling corruption through demonetisation was a feasible idea. There were two main reasons for the skepticism. One, not all corruption takes place by way of exchange of cash. Two, if cash is the enabling tool for corruption, it can still happen using the new currencies. In fact, there have been reports after demonetisation of officials getting caught for taking bribe in new currency .

The assumption that shift to digital transactions post demonetisation will curb corruption is also a weak argument. As an article in THE ECONOMIC TIMES points out if that is the case Kenya, with 75 percent of adult population using mobile phones for transactions, would have been a corruption-free country. But, it is one of the most corrupt countries ranking 139 out of 168 countries.

Impact on Black Money:

According to some estimates, the size of the black economy in India ranges from 20% to 60% of GDP and more and the currency in circulation is just 12% of GDP. According to the RBI, since the 8th November announcement, outlawed currency notes worth Rs 8.11 lakh crore have been deposited in banks and Rs 33,498 crore (3 percent) have been exchanged. So, currency notes worth 60 percent of the total outlawed currency have already entered the system (Total circulation was estimated at around 14.5 lakh crores). But, this does not mean 40 percent cash is still with people. Some portion of it was already with banks -- in the form of cash held in ATM machines and in bank chests.

The Modi government may have unfortunately rushed into a long war with illegal cash. And there is no guarantee that it would be able to demolish and destroy illegal cash.

But in recent cases of big declarations, a Gujarat business man declared unaccounted money of 13000 crores and a Mumbai family, a whopping 2 lakh crores. If we add these declarations to the IDS declarations, then the total amount declared under the scheme will add up to around 2,78,000 crores. This is quite decent.

Terror finance

Post the demonetisation, PM Modi and his cabinet colleagues have claimed that the move has broken the back of Maoists and stone-pelters in Kashmir. In fact, PM Modi said in Parliament in February this year that 700 maoists have surrendered after the note ban. But, the subsequent incidents of maoist attacks on jawans and continuing incidents of stone pelting in Kashmir raise doubts on this claim too. It is a fact that sudden withdrawal of cash would have impacted the domestic terror groups for a while. But, as the cash supply improved, it is likely that these groups will also get access to cash.

“Some of the activities like terror funding, etc would have come down because there is no cash available in the system. But, with this, the overall economic activities also have come down. Money, which was utilised earlier, is not available now. Once the cash comes back, all of this will start again. The point is for one or two targets, you don’t burn the entire forest,” former RBI deputy governor, K C Chakrabarty, told FIRSTPOST in January this year.

Cashless economy

Demonetisation has indeed helped to formalise the economy with more number of depositors now traceable. Also, the Modi-government’s push for cashless economy post demonetisation has helped to improve the use of non-cash methods for regular transactions. Launch of BHIM app and incentives for use of cashless transactions have encouraged more number of people to take the digital shift. But, as the remonetisation has progressed, cash has made a strong come back to the system with digital transactions showing a decline from the peak post note ban and cash withdrawals from ATMs on the rise.

Key Episodes of Corruption

In 2011, Corruption Perception Index ranked India 94 among 176 countries with a score of 36. India’s rank has now improved to 76. It is not at a satisfactory achievement, as it

is evident that cross-border flow of money derived from criminal or corrupt activities is around \$1.5 trillion annually. Nearly \$40 billion of this is accounted for bribes paid to public officials in developing countries. There was widespread corruption at the top, middle and bottom levels of governance in India during the import substitution regime. Economic reforms could be a source of huge one-time rents to politicians in power, for example, privatisation of public monopolies. This reduces their ability to use the public sector for political patronage in the future. The sources of corruption can be traced to scarcity, property rights and their enforcement, transaction costs and information asymmetries, and political position (Patibandla and Sanyal, 2009).

Corruption through scarcity is generally seen in terms of a mismatch between demand and supply. In the case of goods, the market structure of an industry (monopoly versus competition), price regulation, quantity limits, zoning and differential tax treatment in different states result in scarcity, which creates opportunities for rent (corruption). In the case of service sector, a supplier or a government body may refuse to provide a service, unless a bribe is paid. In the post-reform era, some sources of scarcity-related corruption have been magnified, owing to weak property rights and high transaction costs of enforcement. As a result, corruption has been part of the society, including the pre-reform period. The following evidences, though do not form an exhaustive list, substantiate the argument.

- **Nehruvian Period (17 years):** The Jeep Scandal (1948), The Mundra Scandal (1958) and The Dharma Teja Loans. The values were Rs 80 lakh, Rs 1.2 crore and Rs 22 crore, respectively. The indexed value for all three was Rs 869.57 crore in 2011.
- **Indira Gandhi's Tenure (16 years):** The Nagarwala Scandal (1971), The Kuo Oil Scandal (1976) and The Cement Scam. The values were Rs 60 lakh, Rs 2.2 crore and Rs 30 crore, respectively. The indexed value for all three was Rs 244.7 crore in 2011.
- **Rajiv Gandhi's Term (Five years):** The Bofors Scandal (1987). The actual value was Rs 64 crore and the indexed value was Rs 313.72 crore in 2011.
- **Narasimha Rao's Regime (Five years):** The Lakubhai Pathak Pickle's Scam (1994), The Sugar Import Scam (1994), The Sukhram Telecom Scandal (1996), The Fertiliser Scam (1996) and The C R Bhansali Scam (1998). The total indexed value was Rs 4381.56 crore in 2011.

- **A B Vajpayee's Regime (Six years):** The Kargil Coffin Scandal (1995) and The Barak Missile Scandal. The total indexed value was Rs 68 crore in 2011.
- **Manmohan Singh's Regime (Over nine years):** The Scorpene Submarine Deal (2006, Rs 500 crore), The Adarsh Housing Society Scam, The Common Wealth Scandal (Rs 8000 crore), The Telecom Scam–2G (Rs 1,76,000 crore) and The Loan Waiving Scheme for Farmers (latest in the scene). The total indexed value of corruption so far is Rs 1,98,546 crore.

Mining scam in Karnataka, land grabbing in Tamil Nadu, Madhya Pradesh and Chandigarh are a few other scandals that are not cited here, due to space constraints. The ultimate effect is the accumulation of black money. All these amounts are invested safely outside the country and hence demonetisation is a helpless tool in combating black money.

Containing Inflation

Illicit black money not only finances terrorism but also fuels inflation. There is a possibility that inflation will be contained through demonetisation, especially land and housing prices. Counterfeit currency and black money are largely used in the real estate sector (particularly in unorganised sector and for secondary sales), where prices continuously remained high, due to the presence of black money. It is a known fact that a sizeable portion of the transaction value of land and building is done through black money, which is in currency form. Though some have converted a part of this amount into real assets, demonetisation is a useful tool to address the amount that is kept in currency form. This will reduce the prices of land and houses and thereby act as a blessing to the poor and middle-income groups. Likewise, there are a number of intermediaries in the fishing sector, agricultural sector and service sector with unaccounted money in currency form. Arresting this phenomenon will be beneficial to the society. However, there should be proper institutional reforms to address these issues. Otherwise, demonetisation is not going to produce any wonderful results for the country's economy. Sometimes, a deflationary situation cannot also be neglected which will hamper the economy.

Conclusion

Earlier, the high tax rate was considered a source of black money in India. Now, India has moved to a low tax regime. Yet, tax reforms are not adequate and the issue of black money is not settled. It means that low tax regime will not address the problem of black money. In this

context, demonetisation is a relief to a certain extent. What is necessary is to rein in corruption and for that, institutional measures should be taken. The government has already taken some steps in the direction. For the effectiveness of demonetisation, some drastic steps are required. An urgent remedy is to withdraw all high-denominated currencies from the economy. The decision to print Rs 2000 notes is not a wise step, as it would aggravate the problem of black money and related issues. Small denominations up to Rs 100 (or maximum Rs 500) should be allowed, which should be accompanied by a mechanism to propagate the wider use of debit/credit cards in place of currency.

In conclusion, whoever expects that the demonetisation process will be a great success is mistaken. The inherent limitation of demonetisation has to be kept in mind, while evaluating it. To make the final point, the effects of demonetisation can be split into three periods, such as very short, short and long periods. In the very short period (three to seven days or less than one month), there will be some adverse effects, especially for the poor and middle-income groups. Hence, it will be in a pain economy. In the short period (less than a year), it will produce positive outcomes, barring a few limitations. This period will naturally be in a pleasure economy. In the long period, counterfeit currency and black money (which is not the result of demonetisation but bad governance) may make a comeback, unless proper institutional measures are taken. This coupled with the spread effect of the positives in the short period will usher in a 'neutral economy'. No doubt, demonetisation will not produce bad outcomes in the long run, except a few hardships faced by low-income AAM AADMI for three to five days. The possibility of some positive outcomes like bringing all the black money out of hiding and throttling terror funding in due course cannot be neglected.

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Demonetization- A Step towards eradication of Corruption and Black money

Shantha Naik H⁶⁷

Introduction;

Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency. The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Sometimes, a country completely replaces the old currency with new currency.

Objectives ;

“The exercise has led too much of the black money returning to the banking system. The government will collect tax and penalty on this money. . The main aim behind the limit was to make sure that black money holders would not be able to exchange all the un- accounted money without paying necessary tax.

Meaning:

The term demonetization has become a household name since the government pulled the old Rs 500 and Rs 1,000 notes out of circulation. While as per dictionary demonetization means "ending something (e.g. gold or silver) that is no longer the legal tender of a country", one needs to see if there is anything more to the word.

Demonetization for us means that Reserve Bank of India has withdrawn the old Rs 500 and Rs 1000 notes as a official mode of payment. The demonetization of Rs.500 and Rs.1,000 banknotes was a policy enacted by the Government of India on 8 November 2016, ceasing the usage of all Rs.500 and Rs.1,000

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banknotes of the Mahatma Gandhi Series as legal tender in India from 9 November 2016. This is usually done whenever there is a change of national currency, replacing the old unit with a new one. In India's case, the move has been taken to curb the menace of black money and fake notes by reducing the amount of cash available in the system. It is also interesting to note that this was not the first time the Government of India has gone for the demonetization of high-value currency. It was first implemented in 1946 when the Reserve Bank of India demonetized the then circulated Rs 1,000 and Rs 10,000 notes. The government then introduced higher denomination banknotes in Rs 1000, Rs 5000 and Rs 10000 in a fresh avatar eight years later in 1954 before the Morarji Desai government demonetized these notes in 1978. On November 8 evening, Prime Minister Narendra Modi, in his televised address to the nation, made Rs 500 and Rs 1000 notes invalid, saying that it was aimed at curbing the "disease" of corruption and black money which have taken deep root. People holding notes of Rs 500 and Rs 1,000 can deposit the same in their bank and post office accounts from November 10 till December 30. All notes in lower denomination of Rs 100, Rs 50, Rs 20, Rs 10, Rs 5, Rs 2 and Re 1 and all coins continued to be valid, and new notes of Rs 2,000 and Rs 500 were introduced. There was no change in any other form of currency exchange be it cheque, DD, payment via credit or debit cards etc. The government's move to demonetize, even then, was to tackle the issue of black money economy, which was quite substantial at that point of time. In January 1978, the Indian government demonetized Rs 1,000, Rs 5,000 and Rs 10,000 notes which was quite substantial at that point of time. The move was enacted under the High Denomination Bank Note Act, 1978. Under the law all "high denomination bank notes" ceased to be legal tender after January 16, 1978. People who possessed these notes were given till January 24 the same year — a week's time — to exchange any high denomination bank notes. The main difference between then and now is that currency of higher denomination was barely in circulation, unlike the Rs 500 and Rs 1000 note today.

Long-Term Effects

Over 3 trillion rupees, or over \$44 billion in old currency, was deposited with Indian banks in just the first week after the demonetization. There was concern that the uncertainty and short-term liquidity squeeze would take some momentum off the Indian economy, the fastest-growing in the world; in particular, sectors like real estate, notorious as a harbor for

cash dealings and black money, were expected to take a hit, with "luxury property prices dipping by as much as 25-30%,".

But experts believed any slowdown would only be short-lived once the systems adjusted to the new normal, especially if the government heeded calls to lower interest rates by groups like the Federation of Indian Chambers of Commerce and Industry (FICCI). Credit rating agency India Ratings & Research maintained its GDP growth forecast for India at 7.8% for FY17, albeit with a downward .

Demonetization is barring some currency denominations/ notes to be legal tenders from a particular date. Our PM announced demonetization of 500 Rs and 1000 Rs notes on Nov 8th, 2016, which accounted for ~15.5 lakh crores i.e. 86% of currency in circulation.

- a. Recent IT raids and the crores of un-accounted money found by them in new currency shows lacuna in implementing the decision. Most of the bank workers tied up with high net worth individuals in money exchange, making it difficult to achieve the purpose and creating cash crunch in the economy by not making the new currency available to common man who is driving force of economy
 - b. Because of criticism from well known economists and neutral parties, people started speculating currency crunch and started holding the money they have (no matter how small) instead of spending, making the situation even worse
 - c. Fiscal push which government is expected to get may lead to fiscal indiscipline if not spent properly
2. Government utilized this opportunity to push for digital transactions so that black money can be curtailed to some extent and traders cannot escape paying indirect taxes once the transaction is digital, which increases government income there by reducing fiscal deficit

Inherent Disadvantages:

1. We have a long way to go to become cash less economy especially from point of view of security of digital transactions.
2. Even if a person is ready to make digital transaction, most of the vendors are not ready to accept because of lack of awareness.
3. Rural poor might find it difficult to shift to digital economy (without help) because of illiteracy.

Other Advantages:

Since banks got enormous amounts of deposits, these can be best utilized to solve NPA problem. Banks would want to lend out this money by offering at low interest rates thereby improving economic activity and so GDP in the long run. Once the black money held in cash is curtailed, the artificially created demand will go down, automatically reducing the prices. So purchasing capacity of poor and lower middle class will increase considerably. Many infrastructure projects which are stalled due to lack in investments can be completed by getting funds from banks. Tax revenue increase will be tremendous (already evident). May improve India's ranking in various indices like "Ease of doing business index"

Other Disadvantages:

In the short run demonetization will slow down the economy. Even a 1% drop in GDP will out way the positive outcome government gets by removing unaccounted money from economy. The cash crunch has majorly hit the rural poor especially when the farmers were trying to sell their produce. Though black money is not good, in a way it helps to expand economy. So slow down in the short run will be inevitable. Postponement of GST bill is a blessing in disguise since it gives the government time to come up with best GST law. But postponement may disappoint investors which will intern hurt already down trodden economy. Speculated increase in spending by low interest rates because of improvement in cash deposits in banks is stalled by recent monetary announcement from RBI which kept interest rates unchanged.

Summary:

Demonetization is definitely a very positive and bold step to curb black money which was evident from overwhelming positive response in P.M. Narendra Modi App. But failure to implement it might result in serious injuries to the economy which might hurt citizen's trust towards government and even RBI. So government should take all necessary the positive measures to make it a success.

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Demonetization-A step towards eradication of corruption and black money

Smt. Shridevi Narawade⁶⁸

Introduction

When a currency note of a particular denomination ceases to be a legal tender, it is termed as demonetization. It occurs whenever there is a change of national currency. The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins and sometimes a country completely replaces the old currency with new currency.

Background

Before 2016 demonetization The Indian government had demonetized bank notes on two prior occasions—once in 1946 and then in 1978—and in both cases, the goal was to combat tax evasion by "black money" held outside the formal economic system. However, the 2016 demonetization efforts cover 86% of the total currency in circulation (11% of GDP).

The first currency ban:

In 1946, the pre-independence government hoped demonetization would penalize Indian businesses that were concealing the fortunes amassed supplying the Allies in World War II. The currency note of Rs 1,000 and Rs 10,000 were removed from circulation with effect from 12th January 1946 and gave little time for exchange too. As the notes were accounted only to 3% of the India's population, it didn't affect normal life to an extent. The government through this drive collected Rs.134 crore of the total Rs.143 crore available in the market (according to RBI estimates), only Rs.9 crore was not exchanged

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The second time ban of currency:

That came in 1978; the then Prime Minister of India Morarji Desai announced the currency ban taking Rs 1000, Rs 5000 and Rs 10,000 out of circulation. The sole aim of the ban was to curb black money generation in the country. In Jan 1978 episode, currency worth INR 1.46 bn (1.7% of total notes) in circulation was demonetized. Of this INR 1.0 bn (or 68%) was tendered back. In 1978 the value of demonetization was very small (only 0.1% of GDP).

Reasons for demonetization

We knew terrorism is a frightening threat, but who funds these terrorists? Our enemies they use the fake currency to sponsor terror-this was proven many a times. Corruption and black money are the major obstacles in our country. It is weakening the efforts to remove poverty. Our country is rapidly increasing in terms of growth and we are in No.1 position in terms of growth but we are ranked 76 in Global Corruption Perception ranking. It clearly shows how corruption and black money have spread their tentacles. To overcome these hurdles domestication has been implemented.

NOV 8 2016 ban

The government on 8th November announced that INR 500 and INR 1000 notes will cease to be legal tender effective immediately. The government claimed that the demonetization was an effort to stop counterfeiting of the current banknotes allegedly used for funding terrorism, as well as a crack down on black money in the country. The move was described as an effort to reduce corruption, the use of drugs, and smuggling.

Declaration of demonetization by Prime Minister Narendra Modi caused a sensation in the whole country. Social media was flooded with messages and (Mis) information. People started counting the cash they had accumulated for years legally or illegally. Rumors ran rampant. Some tried to invest their dying currency in gold. Some contacted their near and dear ones in this miserable hour. According to the government's plan of action, people could get only Rs 4000/ of old denomination exchanged with the new ones per day. Long queues before the banks and ATMs became the order of the day. Instead of getting shorter, these queues became longer with every passing day. Some sections of the society, especially those who had been hoarding money illegally, were up in arms but the commoners, for the most part, claimed to support what was seen as a refreshingly bold move by a Prime Minister unafraid to take on the rich and the powerful.

The main objective of this move was to curb the black money, corruption and the menace of fake currency plaguing the Indian society. The flabbergasted political opposition, surprised, taken mum surprised, claimed to welcome the move while handing out backhanded compliments to Prime Minister Modi and his team. It took a few days before the opposition parties could gather their wits and launched their tirades, this time claiming to champion the common man. In a travesty of solidarity, some opposition leaders, bodyguards and retainues in tow, went to local banks; ostensibly in order to ‘experience the plight’ of the common man. They didn’t achieve much, by most accounts, apart from exacerbating already complicated situations and aggravating an already frustrated public who had to bear the brunt of these politicians’ ‘magnanimity’. Other members of the opposition were content to call this action draconian and wanted the government to roll back it. And while the elephant of what’s now popularly termed ‘Modi’s Demonetization policy’ sashayed forward at its leisurely pace the media hounds brayed themselves hoarse to no avail.

People did face a lot of inconveniences owing to shortage of new currency but by and large, the masses welcomed the move. Some even lauded the Modi government for this big move. Our Prime Minister, while refraining from personally striking back at his detractors, launched his own media campaign, often recouring to rhetoric to sway the country to his side. He went to the extent of telling his countrymen at every opportunity that demonetization was a part of a “mahayajna”, a grand plan, and they must offer their own ahuti(sacrifices) for the betterment of our country.

At the height of this whole hoopla, which threatened to destabilize the national economy, the governor of the Reserve Bank of India, Urjit Patel, who had until showed an unusual fondness for anonymity, finally crawled out of the woodwork to claim that the central bank is monitoring the situation on a daily basis and taking all necessary actions to ‘ease the genuine pain of citizens’ with a clear intent to normalize things as early as possible. The RBI governor also urged people to start using cash substitutes like debit cards and digital wallets, saying it will make transactions cheaper and easier and in the long term, it will help India “leapfrog into a less cash – use economy on a par with more developed nations”. The demand for point of sales (PoS) or card swipe machines has increased. E-payment options like Pay TM and Instamojo Payment Gateway, PayUMoney has also seen a rise. According to data of Pine

Labs, the debit card transactions rose by 108% and credit card transactions by 60% on 9 November 2016.

As the use of demonetized notes had been allowed by the government for the payment of municipal and local body taxes, it led to people using the demonetized Rs 500 and Rs 1000 notes to pay large amounts of outstanding and advance taxes. The tax collection by local bodies have surged over 260% and more than 15000 crore rupees were collected after just 14 days of demonetization. The total indirect tax collection rose to 14.2% in the month of December, according to Finance Minister Arun Jaitley. The Specified Bank Notes Ordinance, 2016 was issued by the government of India on 28 December 2016 ceasing the liability of the government for the banned bank notes. However, petrol, CNG and gas stations, government hospitals, railway and airline booking counters, state government recognized dairies and ration stores and crematoriums were allowed to accept the banned Rs 500 and Rs 1000 bank notes until December 2, 2016.

Objectives of Demonetization:

The objectives of the scheme, according to reserve bank of India, are as follows. “in order to contain the rising incidence of fake notes and black money, the scheme to withdraw legal tender character of the old bank notes in the denominations of rs 500 and rs 1000 was introduced.”

The objectives of demonetization as delineated by PM Modi on 08th November are as follows:

Objective-I: Remove Black Money from the System

Modiji has done a really good work, as people who are having black money will now be left with nothing particularly. All the cash which resides below the pillow, will now be useless (Although small amount of black money can be converted into white, but amount in hundreds of crore of rupees is almost next to impossible to make it white)

Objective-II: Tackle Menace of Counterfeit Currency

Demonetisation will also stop the circulation of fake notes in the economy (Although the amount of fake notes revolving in the economy was around 400 crores).

Objective-III: Stop Terror Funding

Because of demonetisation, the people or organizations who used to fund terror groups will be now sitting without any works, they will naturally die and that too with starvation.

Objective-IV: Reduce Corruption

By removing the currency notes from circulation, it will have a direct impact on corruption. People who have these notes will now be left with nothing.

Effects of Demonetisation

Decision to ban currency notes of Rs500/- and Rs1000/- was surely a milestone in the history of India. The purpose was mainly to curb black money as well as making cashless transactions more often not to mention to demotivate corrupted Indians. Every decision has its pros and cons and the same has happened to demonetisation as well.

PROS:

Here's a low down of some of the major advantages that demonetisation has delivered to the economy:

- a. At the time of demonetization, currency worth Rs 17.77 crores was in circulation in the economy. Out of this, Rs 15.44 lakh crores was in high denomination notes, which were phased out. Rs 2.33 lakh crores was in small denomination notes with a value of Rs 100 or less. The government's internal calculation is that if currency in circulation had continued to be printed at the same rate as before demonetisation, then by May 2017, currency in circulation would have been of the value of Rs 19.25 lakh crores. According to RBI figures, at the end of April this year, the total amount of currency in circulation was Rs 14.2 lakh crores.
- b. The demonetisation advantages report of the Modi government says that with Rs 14.2 lakh crores of currency the economy is able to meet all its transactional requirements. This means that the economy now has roughly Rs 5 lakh crores of cash lesser than the amount it would have had if demonetisation had not happened. This essentially means that the amount of cash stashed away by citizens has come down. This is advantageous to the economy since the hoarding of cash delivers no value to the country's economic growth.
- c. One of the most important benefits of demonetisation has been the sharp increase in the country's tax base. The government's estimate is that thanks to demonetisation, India's net personal income tax revenue could double over the next couple of years. Some of the dividends are already visible. The number of people who have filed self assessment forms for the financial year 2016-17 grew by 23.8 per cent. The government's

calculation is that out of this 23.8 per cent, at least 10 per cent growth is thanks to demonetisation. Senior officials in the administration say that demonetisation has sent a message that those who evade tax are engaging in a form of financial terrorism and that the law is now going to come after them.

- d. 91 lakh new assesses joined the tax base in FY 2016-17. In years gone by, the increase in the number of assesses has usually been in the range of 20-25 lakh. The government's belief is that a strong message has gone out that there's no point any longer in hiding income. Last year, just 24 lakh individuals declared a net income of more than Rs 10 lakh. Out of this meager number, 65% were those who drew fixed salaries.
- e. Before demonetisation roughly 1 lakh new pan cards were issued every day. Now the number of new PAN cards issued every day averages between 2-3 lakhs.
- f. One of the big advantages of demonetisation has been the move to a more formal digital economy. In FY 2016-17, there were a total of 300 crore digital transactions. If the rate seen in the first few weeks of FY 2017-18 continues, then the government estimates that this year there will be more than 2500 crore digital transactions.
- g. The usage of mobile wallets like PayTM, SBI Buddy, FreeCharge is already worth more than Rs 200 crore per day. In the five months since its launch, 2 crore people have downloaded the BHIM app. The BHIM and UPI payment gateways are already averaging a daily transactional value of Rs 140 crore per day.
- h. Debit card usage figures have gone up significantly post demonetisation. In 2015-16, the total number of debit card transactions was 117 crores, which had an aggregate transactional value of Rs 1.58 crores. In 2016-17, the number of transactions went up significantly, mostly after demonetisation. In the year gone by there were 240 crore debit card transactions with a total value of Rs 3.3 lakh crore.
- i. Demonetisation has helped bring a significant amount of additional money into the formal banking system, which is apparent from the increased number of bank deposits. The government's estimate is that the total amount of savings in the banking system has gone up by Rs 4.5 lakh crore from the pre-demonetisation baseline figure.
- j. Demonetisation has also helped ensure that the advance of a RBI rate cut is actually passed on to the consumer. Between January 2015 and October 2016, the RBI reduced interest rates by 175 basis points. However, on an average banks passed on only about

50 basis point rate cut to the consumer. After demonetisation, though, banks have already reduced the Marginal Cost of Fund Based Lending Rates (MCLR) by around 100 basis points and the government expects that the reduction will continue in the coming months.

- k. Demonetisation is also giving a boost to reviving the housing sector which has been in the doldrums for the last few years. Interest rate for individual borrowers is already done to 8.2 per cent. Before demonetisation, interest rates hovered at around 9.3 per cent.
- l. In the same way the total amount outstanding with urban local bodies under the heads of Property Tax, Professional Tax has come down in a significant way. In November 2015, India's major urban local bodies collected Rs 1000 crores, while in November 2016, urban local bodies collected Rs 3,500 crores, which is an increase of a whopping 245 per cent.
- m. Before demonetisation, cashless payment at toll plazas of National Highways Authority of India was roughly 3 per cent of total NHAI toll collections. Cashless transactions have now gone up to 15 per cent of the total toll collected by NHAI.
- n. Cashless payment at petrol/diesel outlets before demonetisation was roughly Rs 4,500 crore. After demonetisation, this figure has jumped to Rs 12,000 crore. In percentage terms, cashless payments at petrol pumps have gone by from 9 per cent to more than 20 per cent.

CONS:

- a. Demonetisation as a means of tackling the black economy was destined to fail. It was carried out on the incorrect premise that black money means cash. It was thought that if cash was squeezed out, the black economy would be eliminated. But cash is only one component of black wealth: about 1% of it. It has now been confirmed that Rs 15.28 lakh crore out of the Rs 15.44 lakh crore in currency that was rendered invalid on November 8, 2016 has come back into the Indian banking system. This means that 98.96% of Rs 1,000 and Rs 500 notes that were banned as a result of demonetisation were returned to the central bank by the end of June 2017.
- b. Black money is a result of black income generation. This is produced by various means which are not affected by the one-shot squeezing out of cash. Any black cash squeezed

out by demonetisation would then quickly get regenerated. So, there is little impact of demonetisation on the black economy, on either wealth or incomes.

- c. The big failure of demonetisation is that it was carried out without preparation and caused big losses to the unorganized sector. This has not been factored into the recent data on growth rate, so the loss to the economy would be in lakhs of crores of rupees. Farmers, traders and the youth are all agitating.
- d. The black economy needs to be tackled, but demonetisation is not the way. The brunt of this move has been borne by those who never had any black money. The note shortage is slowly waning and the long-term economic and social effects are becoming evident.
- e. Due to this cash crunch, India ground to a halt. Businesses shut down, farmers couldn't buy seeds, taxi and rickshaw drivers didn't have any way to receive payments, employers had no way to pay their employees, hospitals were refusing patients who only had old banknotes, fishermen watched their catch wither up and rot, some families had difficulty buying food, and weddings throughout the country were canceled.. transition.
- f. Initially, demonetization was sold by Modi as a campaign to fight corruption. It was thought that the country's black market wouldn't be able to exchange or deposit their gluts of illicitly obtained wealth, and the central bank could have been in for a payday that was estimated to be as high as \$45 billion. But this simply didn't happen. Even with strict regulations put in place to audit large deposits and limit the amount of banknotes that could be exchanged at one time, India's shadow economy was able to unload their black money, often laundering it sparkling white in the process.
- g. How the black market was able to do this is still being investigated, but reports have been surfacing that document an array of tactics — which included everything from using phony bank accounts to illicitly exchanging money with corrupt bankers to even threatening bank employees with physical violence if they don't do extra-curricular exchanges.
- h. Another stated goal of Modi's demonetization campaign was to curb counterfeiting. It was reported that prior to this initiative, 250 out of every million Indian banknotes were fake — the blame mostly being placed on Pakistan, where there are rumored to be

government-directed printing presses churning out Indian rupees to fuel terrorism. The new 500 and 2,000 rupee banknotes which are currently being issued have different designs and are of different sizes than the previous notes, so all old fakes were instantly washed from the economy. Initially, changing banknotes is of course an effective means to combat counterfeiting, but how long will this last? Reports state that the newly minted Indian rupees will be anywhere from impossible to rather easy to counterfeit.

Top government officials told that judging the success or failure of demonetisation on the basis of currency that came back to the system was "ill-informed" and "incorrect." They also said the government had never claimed that a specific portion of banned notes won't come back and that the success of the scheme should be judged on its proven ability to formalise transactions and detect illegality and fraud. This official also said, "It is completely incorrect to say that black money would turn white once they are deposited in banks." He added that the government had neither announced nor claimed that a significant amount of notes may not return but had tried its best to ensure that currency enters into the mainstream after demonetisation.

Reasons for why demonetization failed to curb black money and corruption completely:

While the currency ban has gained popular support among most of the citizens of India who hail it as a masterstroke against fake currency and black money, the people in support mainly fall into the category upper middle class and the rich. This move has caused huge negative disruptions in the market and the economy because of poor implementation.

- Gone are the days when people hoarded wealth in gunny bags full of banknotes. In today's world, there are refined ways of laundering money or stashing it away in benami properties, offshore bank accounts and foreign currency. Only the small fish keep their ill-gotten wealth in currency and the impact on black money will therefore be very limited in this exercise.
- Since the banknotes from 86% of the value of all banknotes in circulation, it is bound to affect everyone's lives adversely. The most impacted will be the poor in both urban and rural areas who work in the vast informal sector in the country. This sector forms almost 69% and 75% of urban and rural employment excluding household help where wages are paid and spent in cash. Then there is a large section of the

middle class which has not yet taken to the world of online banking which has been caught in the crossfire.

- When a government decides to demonetize, it does not make any significant revenue while incurring huge costs in printing and implementing the whole process of change. Incentive is the best method to try and weed out black money from the economy. Voluntary disclosure of income scheme not only brings in black money but also adds to revenue for the government. The last scheme introduced by the NDA government had a provision of 45% total tax and penalty and had raked in Rs 65,000 crore of black money.
- The introduction of a higher denomination banknote of Rs 2000 still remains a mystery to many. On the one hand government talks of moving towards a cashless economy, but on the other, it has introduced Rs 2000 and Rs 500 notes with Rs 1000 notes expected to follow soon. A cashless economy is better as one can keep track of all transactions, but with these notes back in circulation it could all be back to square one.

Conclusion:

The demonetization is definitely a good step, however, the planning and execution of the exercise is seriously flawed. Black money is not tantamount to corruption; rather, it is one of the signs of corruption. Unless the root causes of corruption are eradicated, corruption will continue. Demonetization will become a short-term solution to a lifelong issue in India. Just demonetization will not be enough it needs to be supported by an efficient and better tax system in the country.

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Surgical Strike on Black Money: Impact on Indian Economy

Smt. Poornima S R⁶⁹ and Mallikarjun Kappi⁷⁰

Abstract

Surgical strikes are covert secret planned assaults over enemy targets, they are in like a war, A wars are a development of enmity, and are evident and declared. But, surgical strikes are secret and sudden. Similarly, the surgical strikes on corruption by the PM was a long and meticulous planning since 2years (in secrecy), but the implementation was surprising and on the enemy of the nation called corruption and black money and also counterfeits. Which are enemies of national economy and people?

Prime Minister Narendra Modi announced withdrawal of 500 and 1,000 notes in a bid to check black money and cross-border monetary transactions of counterfeit currency. “Notes of 500 and 1,000 not valid from midnight November 8, 2016,” said NarendraModi in a late-evening address to the nation, evoking strong reactions from the man on the street to his political opponents. Government took this step of demonetizing the currency as a tool to fight against black money and corruption in Indian Economy

Demonetization is the act of changing the existing currency in another form. The old units should be retired and replaced by new currency. In other words demonetization means either introducing new notes or coins of the same currency or fully replacing the old currency with new currency. There is an one important thing exist on economics, which is demonetization, in which forms of payment is restored as legal tender. There are so many reasons, why governments demonetized their nation’s currency. Some reasons are like resisting inflation, resist corruption, and discourage a cash system in the country.

KEYWORDS: *Surgical strike, demonetization, experts view, Indian economy*

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Demonetisation in India

On November 8th, India's Prime Minister Narendra Modi announced that on the stroke of midnight all 500 and 1,000 rupee notes — 86% of the currency in circulation — would cease to become legal tender. **Earlier demonetization in India was done in 1946, 1978 and now in 2016**. This is the third time demonetization is happening in India. So that makes it the last time demonetization was done in India. Almost 36 years ago.

The French were the first to use the word Demonetize, in the years between 1850 -1855. Since then many countries have used the word and the policy with immense restriction and discomfort, for it disrupts economics and population at large. India has demonetized before: First time on 12 Jan 1946 (Saturday), second time on 16 Jan 1978 (Monday), Third time on 8th November 2016 (Tuesday).

12 JAN 1946 for the first time, in 1934, Rs.500 and Rs.1000 notes were introduced and after four years in 1938, Rs.10, 000 notes were introduced. In 1946, the currency note of Rs.1, 000 and Rs.10, 000 were removed from circulation (both the notes were reintroduced in 1954 with an additional introduction of Rs.5, 000 currency). The ban really did not have much impact, as the currency of such higher denomination was not accessible to the common people. By the end of 1947, out of a total issue of Rs.143.97 crores of the high denomination notes, notes of the value of Rs. 134.9 crores were exchanged. Thus, notes worth only Rs. 9.07 crores were probably 'demonetized'. There was no fool-proof administrative method by which a particular note brought by an individual could be proved as the life-savings of the hard-working man who presented it or established as the sordid gains of a black marketer. Another loophole was the exemption of the princely states from scrutiny or questioning when such notes were presented by them. Hence, it was more of "conversion", at varying rates of profits and losses than "demonetization".

16 JAN 1978 for the Second time In the early 1970s, the Wanchoo committee, a direct tax inquiry committee set up by the Planning Commission of India, suggested demonetization as a measure to unearth and counter the spread of black money. The then Prime Minister of India, Morarji Desai announced the currency ban in 1978 by taking Rs.1000, Rs.5000 and

Rs.10,000 out of circulation, which was 1.7 per cent of total notes in circulation i.e., Rs.1.46 billion accounting for about 0.1 per cent of GDP (Hari, 2017). The sole aim of the ban was to curb black money generation in the country. However, the public nature of the recommendation sparked black money hoarders to act fast and rid themselves of high denominations before the government was able to clamp down on them.

Similarities in 1978 and 2016 ban

1. The note ban by Morarji Desai and Narendra Modi aimed to drive away black money out of circulation in the economy. Hence, The High Denomination Bank Notes (Demonetization) Act, 1978 was implemented.
2. Prime minister Narendra Modi announced the currency ban in an address that was broadcasted across all news channels. Similarly, Desai announced the ban over the radio after which the banks were closed the following day.
3. Both the affairs were kept confidential.

Differences in the currency ban

Unlike Modi, Desai didn't have the backing of the RBI Governor. The Governor I.G.Patel believed that the ban was implemented simply to immobilize the funds of the opposition party. Patel also believed that people never store black money in the form of currency for too long.

The 1978 currency ban affected only the privileged few, while the 2016 ban had shaken the whole country

Experts and Economists Views About Demonetization in India.

***Amartya Sen** (Leading economist; Noble Laureate; recipient of the Bharat Ratna) According to Professor Amartya Sen said "that millions of innocent people have deprived from their money and being suffered to get their own money back".

***Dr. Manmohan Singh** (Former Prime Minister; eminent economist; former RBI governor) According to the former Prime Minister Dr. Manmohan Singh said in Rajya Sabha that this demonetization is organized loot. In his speech he said that, the way the scheme has been implemented will harm the agricultural sector in India, it will also harm the small scale industry and informal sectors of the economy. He also said that India's GDP can falls about 2 percentage point as a result of this note banned policy. Cooperative banks which serves the rural areas are

non functional and has been prevented from cash. Former prime minister also said that this note banned policy is a monumental mismanagement.

***Arun Shourie** (Former economist at the World Bank; recipient of the Padma Bhushan and Union Minister) According to Indian express, Mr. Arun Shourie said in an interview with NDTV, that this note banned policy made by present Indian government is not poke on black money, because the owner of black money converted their money into tangible and intangible assets. The persons who have huge black money, they never keep money in cash, they never keep money under the mattress, or in gunny bags. They invested their black money in properties, jewelries, stock markets or in other assets.

***Arun Jaitley** (Current Finance Minister of India; Senior Advocate, Delhi High Court) According to Indian Express Mr. Arun Jaitley gives his opinion that the demonetization is good for economy, Indian banks were facing NPA problem since last many years, now banks will have more money to lend for many sectors of the economy.

Impact of Demonetisation on Indian Economy

Demonetization technically is a liquidity shock; a sudden stop in terms of currency availability. It creates a situation where lack of currencies jams consumption, investment, production, employment etc. In this context, the exercise may produce following short term/long term/, consumption/investment, welfare/growth impacts on Indian economy. The intensity of demonetization effects clearly depends upon the duration of the liquidity shocks. Following are the main impacts. Demonetization is not a big disaster like global banking sector crisis of 2007; but at the same time, it will act as a liquidity shock that disturbs economic activities.

***Liquidity crunch (short term effect):** liquidity shock means people are not able to get sufficient volume of popular denomination especially Rs 500. This currency unit is the favorable denomination in daily life. It constituted to nearly 49% of the previous currency supply in terms of value. Higher the time required to resupply Rs 500 notes, higher will be the duration of the liquidity crunch. Current reports indicate that all security printing press can print only 2000 million units of RS 500 notes by the end of this year. Nearly 16000 mn Rs 500 notes were in circulation as on end March 2016. Some portion of this was filled by the new Rs 2000 notes. Towards end of March approximately 10000 mn units will be printed and replaced. All these indicate that currency crunch will be in our economy for the next four months.

***Welfare loss for the currency using population:** Most active segments of the population who constitute the 'base of the pyramid' use currency to meet their transactions. The daily wage earners, other labourers, small traders etc. who reside out of the formal economy uses cash frequently. These sections will lose income in the absence of liquid cash. Cash stringency will compel firms to reduce labour cost and thus reduces income to the poor working class. There will be a trickle up effect of the liquidity chaos to the higher income people with time

***Loss of Growth momentum-** India risks its position of being the fastest growing largest economy: reduced consumption, income, investment etc. may reduce India's GDP growth as the liquidity impact itself may last three -four months.

***Impact on bank deposits and interest rate:** Deposit in the short term may rise, but in the long term, its effect will come down. The savings with the banks are actually liquid cash people stored. It is difficult to assume that such ready cash once stored in their hands will be put into savings for a long term. They saved this money into banks just to convert the old notes into new notes. These are not voluntary savings aimed to get interest. It will be converted into active liquidity by the savers when full-fledged new currency supply take place. This means that new savings with banks is only transitory or short-term deposit. It may be encashed by the savers at the appropriate time. It is not necessary that demonetization will produce big savings in the banking system in the medium term. Most of the savings are obtained by biggie public sector banks like the SBI. They may reduce interest rate in the short/medium term. But they can't follow it in the long term.

***Impact on black money:** Only a small portion of black money is actually stored in the form of cash. Usually, black income is kept in the form of physical assets like gold, land, buildings etc. Hence the amount of black money countered by demonetization depend upon the amount of black money held in the form of cash and it will be smaller than expected. But more than anything else, demonetization has a big propaganda effect. People are now much convinced about the need to fight black income. such a nationwide awareness and urge will encourage government to come out with even strong measures.

***Impact on counterfeit currency:** the real impact will be on counterfeit/fake currency as its circulation will be checked after this exercise.

Conclusions:

Demonetization as a cleaning exercise may produce several good things in the economy. At the same time, it creates unavoidable income and welfare losses to the poor sections of the society who gets income based on their daily work and those who doesn't have the digital transaction culture. Overall economic activities will be dampened in the short term. But the immeasurable benefits of having more transparency and reduced volume of black money activities can be pointed as long term benefits.

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Demonetization and its impacts on Key Sectors

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Abstract

The row claimed in favour of demonetization is that the cash that would be extinguished would be “black money” and hence, should be rightfully extinguished to set right the mean incentive structure in the various key sectors of marketing and Indian economy. While the facts are not available to anybody, it would be foolhardy to argue that this is the only possibility. Therefore, it is imperative to evaluate the short run and medium-term impacts that such a shock is expected to have on the economy. Further, the impact of such a move would vary depending on the extent to which the government decides to remonetise.

India has amongst the highest level of currencies in circulation at 12.1% of GDP. Cash on hand is an estimated at around 3.2% of household assets, higher than investment in equities, or roughly around \$ 220 billion. Of this cash, 87% is in the form of Rs 500 and Rs 1,000 notes or roughly Rs 14 lakh crore (\$190 billion). A significant portion of the household cash on hand is generated by economic transactions that are not reported to tax authorities or generated through corruption. Scrapping the higher denomination money would either result in these being brought into the system or the money just disappearing. The present paper highlights the probable consequences of this decision on various marketing entities.

Key words: Demonetisation, Marketing, Economy, Sectors:

Introduction

India’s demonetization initiative, long lines of people looking to exchange notes in banks, some sectors of the economy continue struggling with the lack of readily available cash, grassroots businesses are still being revolutionized with electronic payment capabilities, and masses of people continue transitioning towards new ways of paying for basic goods and services.

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On Nov. 8, 86% of India's currency was nullified in a great demonetization effort that aimed to clean out the black market's cash supply and counterfeit notes which completely disrupted the social, political, and economic spheres of the world's second largest emerging market. All 500 and 1,000 rupee notes were instantaneously voided, and a 50 day period ensued where the population could (ideally) redeem their cancelled cash for newly designed 500 and 2,000 rupee notes or deposit them into bank accounts. Currency change results into the eminent shift in the paradigm of the INDIAN market.

Background

Demonetisation hit India's economy just when it was getting into a cruise mode, fired by good monsoon-led rural demand and Seventh Pay Commission-enabled urban buying. The 8% growth that looked within grasp in FY17 is beyond horizon now. Only about a quarter of currency cancelled is back in circulation, and that too is being stashed away for emergency. Lower denomination notes are not available to facilitate transactions. The fall in demand will further dent already weak investments. The sharpest crash in services PMI since November 2008 in the aftermath of the global financial crisis underscores the risks. Ambit sees growth falling to a low of 3.5% in FY17. Others are not so pessimistic, pencilling in about 7%. To Boost sentiments big time. Government need to cut corporate tax to 25% to stimulate demand. Raise income tax slabs to reduce effective tax on income tax payers. Offer low interest rate loans for housing through interest subvention. Urgently plough back income from demonetisation into public investments. May be people think Budget will determine economy's near future.

Table 1

Sectors	Pre-Demonetisation returns (%)	Post-Demonetisation returns (%)	Difference (%)
Nifty Auto	-0.08	-1.2	-1.12**
Nifty FMCG	0.03	-0.82	-0.90***
Nifty India Consumption	-0.1	-0.93	-0.83**
Nifty Realty	-0.2	-1.01	-0.81**
Nifty Private Bank	0.01	-0.73	-0.74**
Nifty Bank	-0.01	-0.5	-0.49*

Nifty Metal	0.2	-0.14	-0.34
Nifty PSE Bank	-0.1	0.14	0.24**

Note: The data has been collected from NSE India website. *, ** and *** denote statistical significance at 10%, 5% and 1% respectively. This is Table 1: Difference in mean returns before and after demonetisation

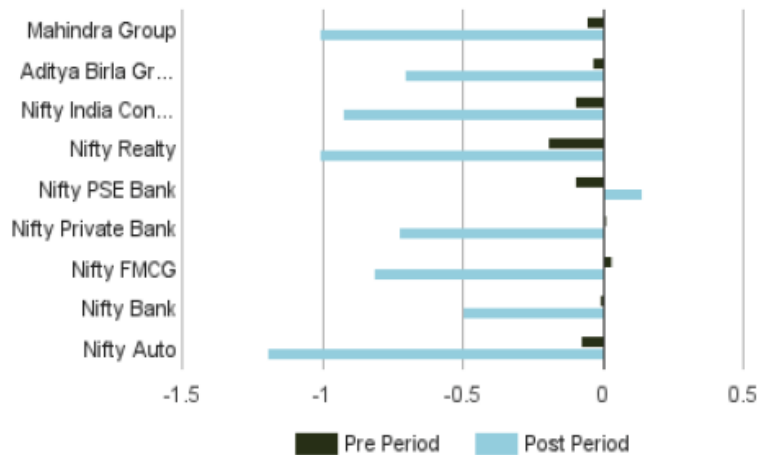


Figure 1

Consumer Spending

IMPACT: Consumption, a big GDP contributor, will take a hit for at least two quarters, say companies and analysts. Two main problems: Low circulation of lower denomination notes, which may be temporary, and wealth erosion, that is impacting big ticket purchases. FMCG sales dropped 20-30% in November. At store levels, impulse buys like snacks, biscuits were hard hit, as were personal care items, Nielsen data shows. December can be worse than November, since last month consumer spend in the beginning of the month was unaffected. Nine million retailers who buy from wholesalers are worst hit, and will feel the pain for a while. Big, organised retail is doing well. Annual growth rate is around 4.4%. Some big FMCG companies have cut production. Supply chains are hit as cash fuels many transactions. Full impact will show up in a month's time, and can be severe.

Consumption and FMCG

A subset of the Nifty India Consumption Index, FMCG (Fast moving consumer goods) has reduced by almost 1% post demonetisation. The Nifty India Consumption Index is designed

to reflect the behaviour of sectors such as consumer durables, healthcare, auto, hotels and so on. The sudden drops in money supply and increased incidence of deposits have had an adverse effect on consumption in the economy. This sudden demand reduction further leads to a multiplier effect due to decline in consumer confidence. With consumers preferring to hold cash in hand, consumers will stick to purchasing necessities and postpone/cancel buying premium FMCG products. Similarly, producers will curb production in order to avoid stock pile up. Both these channels have hampered the sector.

Solution for the situation is Depends on how many consumers can shift to cashless transactions, which partly depends on how many retailers do – an uncertain process at best. Some consumer sector experts say GoI should consider giving a boost to shopping, like Western governments do in tough times. Shopping vouchers to Jan Dhan account holders is one idea. Consumers need to feel good again, tax cuts would be a huge help.

Real Estate

IMPACT: As per a market study, prices of houses is all set to go down by 30% across top 42 Indian cities, due to demonetisation. Due to this market-correction (which resulted due to loss of black money), approximately Rs 8 lakh crore would be wiped off from the market; majority of which is black money in a bubble)

As per the research, real estate valuation in top 42 Indian cities will drop from Rs 39.55 lakh crore to Rs 31.52 lakh crore in the next 6-12 months. Mumbai will bear the brunt for maximum loss in real estate value (2 lakh crore), followed by Bengaluru (Rs 99k crore), and Gurgaon (Rs 79k crore)

Insiders say there's a 40%-plus drop in enquiries and sales across key markets of Mumbai, Delhi, Bengaluru and Pune. Deals in secondary market have come to a standstill. In Bengaluru, drop in deal closings is as much as 60%. Most homebuyers are waiting for big price reductions. With fear of black money transactions and cash crunch added to an already slumping real estate sector, near future is bleak.

Building material/metals:

Building material stocks would come under pressure due to a sudden slowdown. Renovation work, which drives this sector, would get impacted as most of the demand is serviced through cash. Dealer sales in certain projects too would take a hit.

E-Commerce

IMPACT: Mostly bad, some good. For the online retail market, gross merchandise value (GMV) of players fell by 40-50% in first few weeks after demonetisation, in the middle of their biggest quarter for sales. Things may remain bleak till March. Even high-value items like expensive smartphones are selling less. Products returned are up by 50%. And experts feel consumer sentiment won't improve quickly. But the boost to digital payments (100% jump in transactions) has led industry to hope for a bright medium term. Also, grocery and food delivery set-ups are doing better since they sell essential items. Some saw new customer orders jump to 25%, from the usual 15-16%.

Tourism/Travel

IMPACT: Peak tourism period of November-December badly hit. For tourist destinations beyond metros, business may be down by as much as 40%. Tourism business in metros may go down by 10%. Cash shortage at airports and hotels are a big problem. And many national monuments entry points don't have card payments facilities. Western countries have issued advisories on cash crunch in India.

Automobiles

IMPACT: Demand is likely to dip for a couple of months for two-wheelers, but passenger vehicles and tractors will be less impacted. In the two-wheeler industry, around 35-45% purchases are made via financing, while the rest are through banked cash, or are simply "unaccounted". But in the passenger vehicles segment, close to 75%-80% of sales are either through financing, or even down payments are made mostly by cheques -so this segment could face less heat. As for tractors, close to 65% of the purchases are financed, therefore the impact of cash squeeze could be minimal.

Aviation

IMPACT: In world's fastest growing aviation market, passenger traffic growth will fall below 20% from an average 23-24% growth recorded in previous years. Flight bookings dropped drastically in days after demonetisation. Recovered somewhat later. Offline travel agents, who took cash, badly hit. Flights to small towns, where cash payments are the norm, are also badly hit, may post negative growth.

Telecom

IMPACT: Here's no material impact as average transaction size is very small. However, slowdown in Smartphone sales could potentially slower adoption of mobile broadband subscriber penetration, Mobile phone shipments fell by 26% in November, compared to the previous month. Smartphone shipments are down by 23%. Big sellers who do card and online transactions less badly hit. IDC analysts expect sales for feature phones to drop by 25% in the quarter, and Smartphone's to fall by 17.5%.

Agriculture

IMPACT: Interestingly, villages have adapted in some ways better than cities. GoI allowing tax free deposits of any amounts for farmers have led to many of them getting 20% premium from traders when transacting. Informal credit for daily purchases and use of old notes for key inputs and selling produce have kept rural economy going. Crop planting increased 20-35% every week after demonitisation and remained higher than last year in all weeks after November 8. But a lot depends on cash supply improving quickly in the new year.

Banks

IMPACT:**Banking sector upside** despite the wide ambiguity on the effects of demonetisation in the economy, one opinion that is unanimous in the country is its positive influence on the banking sector. With a rise in deposits both for current and savings accounts and falling interest rates, demonetisation is expected to spur liquidity and treasury gains. However, as per table 1 shown above it indicates that the average post demonetisation returns for the banking sector is 0.49% less than the return before demonetisation. Does this imply that the banking sector has in fact been hurt due to demonetisation? This requires segregating the sector into the public and private segments. The move towards a cashless economy will boost savings in financial assets. With any sharp infusion of deposits and relatively limited avenues to lend, the credit deposit ratio for banks would become unfavourable, and thus impact margins. In case of a spike in capital adequacy, it would be positive for margins. While in the event of a higher rise in deposits, the immediate avenue to deploy would be G-Secs, and this could create a temporary downward blip in bond yields. Thus some of banks could see windfall gains on treasury.

NBFCs:

Asset finance companies may see short to medium term pain as a large chunk of business is cash based. Housing finance companies see key impact on loan against property. There may be a slowdown as people may stop buying the second or third house, which may affect developers. Small-finance banks will be big beneficiaries on the deposit front.

Pharma

Impact: Demonetisation is not expected to have any major impact on the Indian pharma market and demand is not expected to get impacted in a big way. However, luxury hospitals may see some impact due to spending cuts.

Conclusion

Some consumer sector experts say GoI should consider giving a boost to shopping, like Western governments do in tough times. Real estate current verdict is strongly negative Big rate cut will help, as will tax concessions on home purchases. RBI policy and budget are key. But sentiment improvement will be a very long process. **Metals** and building materials show its verdict as Negative, can get worse Massive government spends on infrastructure till sentiments and cash supply improve. Budget will be key. Ecommerce **current verdict is negative**, can get worse in short term measures like tax cuts will improve sentiment. Sector specific innovations like card or mobile wallet payment on delivery will help. Tourism sector **current verdict** negative, peak season may be badly hit Provide more cash at various critical points in tourist destinations as most vendors don't have cashless payment systems at tourist spots, or have a massive drive to spread cashless transactions. Automobile sector is at Negative verdict, but not yet bleak but upgrade in consumer sentiment is the key to avoiding deep negative impact. **Aviation sector shows** somewhat negative verdict, not alarming yet discount offers from airlines. Making sure small operators take online payments. Telecom sector shows its current verdict is strongly negative Zero cost EMI offers from brands, retailers, buy now pay later plans, among other offers can boost demand. But future of cash purchase by low-end consumers still dim. Agriculture sector shows **its current verdict as** Neutral to positive Rural India is hoping the new year will mean back to normality on cash supply, if not, major disruptions possible.

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Demonetization: Impact on Mutual Funds, Shares & Stock Market in India

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Abstract

The term demonetization has become a household name since the government pulled the old RS.500 and Rs. 1000 notes out of circulation. While as per dictionary ‘Demonetization’ means that “ending something that is no longer the legal tender of a country”. This measure would mean that from midnight of 8th November 2016 onwards almost Rs.6,32,600 crores in the form of Rs. 500 & Rs. 1000 notes would be banned. To replace them Rs.2000 notes would be introduced, which according to the government would be limited in circulation. With the new limits of ATM withdrawals being restricted to Rs.2000 per day. Withdrawals from bank accounts limited to Rs.4000 per day, Rs.10,000 a week. It will drive the card payments across the country. This move deeply impacts the working sections of society, drivers, maids, cooks, electricians, plumbers. Anybody that provides services in the informal sector depends on monthly or bi-monthly cash payments. This paper intends to focus upon the several issues faced by street hawkers. The effects and impact of demonetization on their livelihood and source of income generated in this manner of adjustability and challenges. Moreover, it is necessary to identify the cultural impact of marketing relationships in the particular locality as concerned. The harmony and interaction of the sellers with the customers shifts its focus towards several tools of techniques related to selling of the items etc. vegetable and fruit wholesale markets as well as food grain mind is in many parts also reported very low business due to shortage of cash. Ever since the announcement of demonetization. The income of unorganized sector workers has come down drastically by up to 60%, and their work is decreasing each day. It is hurting all the more as their “debt and credit limit” with their patrons has been crossed.

Introduction

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In India demonetization was undertaken twice in the past. Once in 1946 and the second time in 1978. However, during both these the Indian economy was not so vibrant. The notes demonetize were of high denominations with very few people having access to their high denomination notes and hence not match hardship was faced by the common man. However, the present denominations announcement had widespread repercussions. The 500 & 1000 Rupees notes being the most widely circulated denominations. Their denomination left people with no cash in hand even purchase daily purchasable like milk, bread, vegetables and fruits. How was fees to be paid to salaries to be given at all became daily concepts for the common man the cash crunch in banks and ATM's added to the people's woes there was clamor to deposit cash in bank accounts. Exchange old notes for new ones and to withdraw scarce cash from ATM's. Another motive of the government in denomination was to create a cashless economy. Cashless transactions have the benefit of transparency all transactions can be traced and tracked. This helps the government to track payment to terrorist organizations and other anti-national activities. At the same time the existing white money of the people remains with banks and also in knowledge of the government facility its recycling into system for giving loans to the needy and for development activities. However, in a country where a large proportion of the population is illiterate and rural areas have in adequate infrastructure for digital transaction it is not possible to create a totally, cashless economy so the effort has how been to create a less cash economy a system of economy where part of the transactions is in cash and the rest in digital payments. Another big hurdle is the unachieved targets for digital India, Mobile internet penetration is crucial in to deeper pockets since POS (Point of Sale) works over mobile internet connection. Earlier banks used to charge money on card based transactions, which has how been pointed out as a hurdle also the low literacy rates in rural areas along with lack of internet access or even basic utilities makes it very difficult for people to adopt to digital transactions.

Objectives:

- To discuss with the impacts on mutual funds
- To examine the shares market
- To examine the stock market in India.

Research Methodology

The study was undertaken collection information from secondary sources, many journals, magazines and research articles are referred to prepare this paper.

Impact on the Stock Market & Stock Investors

What will be the demonetization impact on stock market? Asked one of the readers of the blog. Though I am not a SEBI registered investment advisor, therefore cannot suggest stocks, but I can always share my views. At the macro level from a sector perspective the stock market is zero sum game until unless there are dire needs to exist the stock market for example. Suddenly the stopped and they become a net seller, in such a scenario the retail investors should exit the market at the end of the day retail investors will lose money in the stock market if fil's exit.

Under normal conditions the investors are bullish or bearish on certain sectors the overall bullish trend in the stock market does not mean that all the sectors are expected to perform well. For example, PSU and metal stocks are underperforming despite bullish trend. It will pull out money from IT / Pharma and put it in banking / auto. Therefore, I mentioned it is a zero sum game. It all depends on the sentiments and the judgement of the fund manager and investors how the sector is expected to perform in future. Every news / change in macro economies / change in government policies impact the investors sentiments specific to the particular sector. For example, Post GST implementation experts were bullish on logistics stocks. Similarly, after implementation of 7th pay commission the experts were bullish on auto and white goods.

In my opinion demonetization impact will be far reaching to stock markets and stock investors. At these stage things are not 100% clear and more clarity will emerge with the time. In my opinion in the stock market only those investors can make money who can correctly gauge what's coming your way. Though it is a no-brainer. I also did some study on demonetization impact on the stock market and thought of sharing my observation with the readers of this blog-let's checkout.

At the macro level the cash dependent and consumption based sections will be negatively impacted on the other hand the financial sector will be the biggest beneficiary.

Banking

In my opinion banking will be the biggest beneficiary of demonetization. Banks are flush with the money. The only catch I foresee if the bank is not able to lend / deploy. This money effectively or NPA's increase the demonetization is the beginning of digital payment era. The government will take all steps to make India a cashless economy it will also positively impact the operational efficiency of the banks.

In future we will need less number of branches and over the counter banking may be thing of past. Though it is very futuristic the reason for optimism is a sharp increase in digital payments. The UPI and mobile wallets offered by the banks will support digital payment. Also as I shared in my previous posts that I am anticipating government will reduce the limit on cash transactions to 2 lakhs or 3 lakhs for all types of transaction and may also limit the cash holdings per person. It will further fuel the growth in digital payments.

In banking I personally avoid banks with high NPA in the current scenario. There are very limited quality banking stocks. To summarize all the banking stocks may not be benefited from demonetization impact. If you can identify right stocks at this stage, then you are home.

Auto Stocks

In my opinion demonetization impact will be negative on auto stocks especially 2 wheelers, normally people pay by cash in small towns and cities. It is also true for entry / mid segment 4 wheeler. The auto sector should expect a slowdown. Not many people are aware that auto and luxury goods were one of the key beneficiaries of black money. Though of late the govt. made it mandatory to quote PAN but still it was not possible to control the cash transactions. Before demonetization the people knew different methods to cover up these purchases i.e. in some case vehicle purchase was used to convert black money to white money. To summarize there will be a slowdown in the auto sector especially 2 wheelers. I am not expecting these stocks to the well in future.

Food & Beverage

According to my study it will be one of the hard hit sectors. The demonetization impact will be negative for food and beverage. To share the demonetization impact recently I visited a couple of my regular restaurants. You will not believe that some of these are closed temporarily or reduced their timings. The reason being they are not willing to accept digital payment. One of the co-owner told me offline that business is not viable if the share of cash transactions drop significantly.

Therefore, FMCG companies predominantly in to food and beverage business may get impacted negatively on the contrary listed QSR's may be benefited because people may shift to QSR's.

Consumer Goods

In my opinion consumer goods both electronic and white goods will be negatively impacted, I observed nonpoint cash transactions and there is also a parallel grey market. Similar to auto people with black money preferred cash payments to buy consumer goods. I don't know the percentage of such transactions but definitely demonetization impact will be visible on consumer goods.

Retail

The retail sector will hit hard by the demonetization impact the payments through retail channel are not tracked in pas, I observed people buying gift cards through cash and gifted to their loved ones. There was no need to quote PAN. Now such transactions will not be possible with the flushing out of black money from the system. The people will reduce spending. Another reason will be people who lost black money will drastically cut down the spending.

Telecom

I am not a big of telecom stocks for a change demonetization impact on telecom stocks will be positive. In my opinion telecom players have done a lot of ground work on digital payments. Almost all telecom players have mobile wallet offerings for digital payment. The demonetization will help telecom players to increase the uptake of their mobile wallets. Thus is a positive development for the telecom sector. I am expecting that as the mobile is now personalized device. Therefore, uptake of mobile wallet of telecom player might be more compared to independent mobile wallets.

Words of Wisdom

The Economists are predicting a slowdown in economic growth and customer spending. This is because of what I explained in this past, i.e..cash spending will reduce. There is a set of customers who are simply allergic to digital payments or spending from white money. The reason being don't want their spending to be tracked they will prefer not to spend rather pay through digital mode or from accounted income.

In layman terms the vanishing of black money from the market will hit some sectors hard. As we don't have the breakup of cash spending in various sections. Therefore, it is

difficult to gauge the exact impact. In my opinion high – value transactions in cash will hit hard. There was a joke on Facebook ‘Don’t show off or post a pic of your Hublot watch on social media income tax department is watching’.

Impact on The Indian Share Market

Even after the announcement of demonetization the pharma stocks have been a huge increase in their price. While some expected that the election of Donald trump as the President of US will cause hurdles in this sector but the analysts had a different opinion. As the chemists accepted the old currency of Rs. 500 and Rs. 1000 till the 15th December many did purchase the medicines for 6 months to a year, with this the pharmaceutical companies might present decent Q3 results.

Some of the stocks from the housing finance sector that are a hot favorite for many fund managers are the LIC housing Gruh Finance and Can Fin homes while many fear that these stocks might get affected due to fall in prices of reality sector. There are others who state that the fall in property prices is the best thing that can never happen to housing finance companies. These companies flourish when the property prices come in the reach of the salaried people and the first time property buyers.

The banking sector is the one that can expect a benefit as money would flow into all the banks respective of it being a private sector bank or a public sector banks. Thanks to the thousands of Jan Dhan accounts that were opened. But experts also feel that once the dues to settles the private sector banks to will start enjoying good benefits like before. Hence this is one sector that gets a sure benefit due to demonetization. Even if there are stocks that have seen a downfall experts say that major pullback can expected once the cash ration gets normal.

The move of demonetization has affected the purchasing power and this decrease in purchasing power will start to show its impacts on various services and goods. This can be left for those assets that are used as long term investment like real estate, vehicles and core sections of cement and steel and so on. The stock prices of the companies from these sector will have a negative impact and the impact of demonetization on companies from Pharma, IT and FMCG will be limited. If you are a trader planning to make some good money in equity the imfra stocks are at low and exports, consider these to be a good buy.

Debt, Loans & Investment

The mutual funds are expected to get benefited from demonetization in the long term, with the banks to reduce the fixed deposit rates soon. More people would shift their investments towards mutual funds to earn more returns from inflation. As good equity mutual fund companies invest in strong stocks one can expect to receive good results with a low price investment.

Investors can also invest their funds in saving schemes like NSC and PPF as they would give higher returns when compared to fixed deposits of banks. One can also consider investing in tax free bonds as they give 6% returns and do not have a lock in period. The interest one earns on tax free bonds not taxed whereas the interest that is earned on fixed deposits is taxed. Apart from the reduction in the interest rates on bank fixed deposits one can also expect a reduction in the lending rates which would mean lower EMI's on your home and car loans.

Though the government has taken the move of demonetization to curb black money. It is an individual's duty to know its impact on their investments and loans well all we can say is invest safe tax wise decisions and get rich.

Information Technology

The Information Technology has been unaffected by the demonetization as it is export oriented and hence relatively better positioned to handle shocks in the Indian economy more over it is probably also largely a cashless sector and hence also not affected due to the cash being taken out of the economy. The NIFTY, IT chart below shows that the IT sector is actually doing better than from what it was on 8th November 2016.

Conclusion

We conclude we can probably summarize the effect of demonetization on the overall economy as follows.

- In the short term GDP will be down for at least 1 to 2 quarters before recovering.
- A lot of black money will be deposited to white and be deposited in to the banks which will in turn help in the NPA problem that banks are facing.
- In the long term reducing of black money economy in the future should bring more people in the tax net and hence lower taxes as well as interest rates which will bode well for the overall economy.

Although this was that is called a surgical strike on black money and will have immediate impact on the existing black money. Most economists agree though that this

move is not sufficient and several other reforms like tax reforms, real estate reforms etc. need to be undertaken to curb the black money generation in the future.

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Impacts of Demonetization on Education Sector

Prof. K. B. Manjunatha⁷³ and Prof. L.K. Subhash⁷⁴

Introduction:

Demonetization is the process of removing currency from general usage or circulation. In India's case Government completely withdrawn the currency with the denomination of 1000. Along with 1000 currency notes 500 rupee notes were also withdrawn from circulation. For the old 500 currency notes new 500 rupee notes will be issued and a new currency note of 2000 denomination has been introduced in the economy. New currency notes issued to the public through commercial banks and post offices across India by depositing the demonetized currency notes by the people.

Demonetization in India

This is not for the first time Government Demonetizing the currency. Earlier to this India has witnessed demonetization twice. For the first time demonetization took place in pre independence period. In January 1946, for the first time demonetization took place in India. During this demonetization currency notes of 1000 and 10000 rupees were withdrawn from the circulation and new currency notes of 1000, 5000 and 10000 denomination rupees were introduced in the year 1954. On 16th January 1978, Government of India Demonetized the currency notes of 1000, 500 and 10000 rupee notes as a means to counterfeit money and black money. The present demonetization is the third occurrence in Indian Economy and it is the second Demonetization in the post-independence period.

Higher Education Sector in India

India's higher education system is the third largest in the world, next to the United States and China. The main governing body at the tertiary level is the University Grants Commission, which enforces its standards, advises the government, and helps coordinate

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between the centre and the state. Accreditation for higher learning is overseen by 15 autonomous institutions established by the University Grants Commission.

As per the latest 2011 Census, about 8.15% (68 millions) of Indians are graduates, with Union Territories of Chandigarh and Delhi topping the list with 24.65% and 22.56% of their population being graduates respectively. Indian higher education system has expanded at a fast pace by adding nearly 20,000 colleges and more than 8 million students in a decade from 2000-01 to 2010-11. As of 2016, India has 799 universities, with a break up of 44 central universities, 540 state universities, 122 deemed universities, 90 private universities, 5 institutions established and functioning under the State Act, and 75 Institutes of National importance which include AIIMS, IIT's and NIT's among others. Other institutions include 39,071 Colleges as Government Degree Colleges and Private Degree Colleges, including 1800 exclusive Women's Colleges, functioning under these Universities and Institutions as reported by the UGC in 2016. Colleges may be Autonomous, i.e. empowered to examine their own degrees, up to Ph.D. level in some cases, or non-autonomous, in which case their examinations are under the supervision of the university to which they are affiliated; in either case, however, degrees are awarded in the name of the university rather than the college.

The emphasis in the tertiary level of education lies on science and technology. Indian educational institutions by 2004 consisted of a large number of technology institutes. Distance learning and open education is also a feature of the Indian higher education system, and is looked after by the Distance Education Council. Indira Gandhi National Open University is the largest university in the world by number of students, having approximately 3.5 million students across the globe.

Some institutions of India, such as the Indian Institutes of Technology (IITs), National Institute of Technology (NITs), Indian Institutes of Management (IIMs), International Institute of Information Technology (IIIT), University of Mumbai and Jawaharlal Nehru University have been globally acclaimed for their standard of education. The IITs enroll about 8000 students annually and the alumni have contributed to both the growth of the private sector and the public sectors of India. However, India still lacks internationally behind universities such as Harvard, Cambridge, and Oxford.

Indian higher education is in need of radical reforms. A focus on enforcing higher standards of transparency, strengthening of the vocational and doctoral education pipeline, and professionalization of the sector through stronger institutional responsibility would help in reprioritizing efforts and working around the complexities. The rise of IT sector and engineering education in India has boxed students into linear path without giving them a chance to explore and discover their passions. Concerted and collaborative efforts are needed in broaden student choices through liberal arts education.

India holds an important place in the global education industry. The country has more than 1.5 million schools with over 260 million students enrolled and about 751 universities and 35,539 colleges. India has one of the largest higher education systems in the world. However, there is still a lot of potential for further development in the education system.

India has become the second largest market for e-learning after the US. The sector is currently pegged at US\$ 2 billion and is expected to reach US\$ 5.7 billion by 2020. The distance education market in India is expected to grow at a Compound Annual Growth Rate (CAGR) of around 11 per cent during 2016-2020. Moreover, the aim of the government to raise its current gross enrolment ratio to 30 per cent by 2020 will also boost the growth of the distance education in India.

Demonetization and Education

The word “Education” sounds like a word that is free from all forms of corruption. This is a myth and has been proved right after the recent demonetization took its form. The impact on Education has been positive as well as negative. With this step by PM Modi, students planning for higher studies in India or overseas may get bank loans at much reasonable and cheaper rates. It is a sigh of relief for those economically backward sections of students who have been stepping back for high rate of interest till date. More investors are showing interest in expanding Schools and Colleges as Real Estate Sector has got affected the most. That’s great news otherwise for the country and the investors. Transparency can be expected as many schools, colleges, and private coaching centers can no more be interested in accepting fees in cash but through online banking transfer, DD or Checks. International organizations will get in touch with India for new schools and colleges. This will create opportunities for employment and better education too. School and college who are still considered to be following the old

school method of data entry and money entry will now get digitalized. Fund flow for Research activities will have to face a halt for a while. Under the table transaction in cash for admission will definitely minimize. That was about the Education Sector. Job Industry has gone through a drastic change with demonetization.

Demonetization: Effects on Education

A lot has been debated about the recent demonetisation. Labelled by most newspapers as the most audacious move by any country in the recent years, the news has hit tabloids and editorial columns equally. Another big determinant of its imprint on Indian masses is that the keyword 'demonetisation' and 'demonetization' rose to a search volume of 12,46,000 in November, 2016, and 11,24,000 in the month of December, 2016, from an insignificant number (<300) as recorded on November 7, 2016.

Ever since the Government of India announced the demonetization of Rs. 500 and Rs. 1000 banks notes on November 8, 2016, the pros and cons of this move by the government has been the sole topic of discussion to most of us. Ceasing the usage of these notes as a form of legal tender has surely affected our daily routine. It has most definitely has had huge impact on businesses, trade, and many more sectors of the country. The effects of demonetization cannot be understated. One of the main question unaddressed by many was the impact of demonetization on the education sector of the country! We at Career India have put together some interesting views on the effects of this bold move of demonetization of higher value currency on education. Read the complete story below.

Impact on Higher Education

Positive impacts on education sector:

- The decision of the central government to withdraw high-value bank notes to curb unaccounted cash will hurt education institutions that accept donations or capitation fees for admissions.
- Accepting and accounting donations will become difficult because of the demonetization drive. Education sector was not immune to the Indian theory of 'you can buy everything with money'. This move of demonetization will definitely curb this mentality of many in the country.

- Nursery admissions, private education institutions and professional higher education including medical and engineering are the segments which accept donations widely.
- For the first time, these segments are going to feel the impact in a big way.
- Private educational institutions take huge of amount of donations in Cash which is 40% to 50% more than the fees of the course. We expect that demonetization will impact the recipient.
- Admissions in private educational institutions and medical college admissions comes tagged along with donations without a glitch. The donations in medical colleges are usually more than 100% of the fees. Demonetisation will impact both admissions and also the receipt.
- MBBS seats are some colleges go for Rs40 lakh to Rs60 lakh, while MD seats have a range of Rs. 2 crore price tag on it. Similarly, engineering and management stream seats have a price tag between Rs. 2 lakh to Rs. 10 lakh each.
- This move can change the course of expensive education which can be made more affordable devoid of the capitation fee.
- The seats in the so-called "management quota" will not be up for sale by the institutions, instead will be in the hand of meritorious students.

Negative impacts on the education sector:

- However, some in education sector feel that this effect on capitation will linger may be only for a year or two. After that black money hoarders will find one way or the other like Gold to launder their money into education sector.
- Some feel that the fee control by state government and no donations may also hinder the quality of institutions.

Impact on Higher Education Overseas

Since some parents use black money to fund student expenses for those who are studying abroad, the flow of Indian students to foreign countries may also dwindle. This move may impact the US and UK education market as these are top destinations for Indians and the fees are relatively high in these countries.

Some aspirants are of the view that the situation will settle down in six months and if that does not happen, the foreign education plan may get affected for a segment of aspirants. Since unaccounted cash is largely used for living abroad, the situation will worsen if the current

atmosphere prevails even after six months.

Education-related overseas expenditure was \$1.98 billion in 2015-16, according to Reserve Bank of India data and more than 250,000 Indian students were studying abroad at any given point of time. That is it for the education sector. This is how we think demonetisation will affect education system in the country and those who are aspiring to study abroad. Let us know your thoughts in the comments section below.

One of the key advantages of demonetization is that it can create a level-playing field for aspiring and deserving students, who are unable to pay capitation fee (donations), which has been prevalent in the Indian private education system.

Money in the education ecosystem flows in many forms. Imagine a student paying the fee to an institute. This fee has multiple components—admission fee, tuition charges, transportation charges, hobby activities fee, money for uniform, to name a few. The aggregated amount paid by parents is disbursed in different bank accounts based on the various fee elements mentioned herewith. This payment by parents is in part cheque or demand draft or digital, and in part cash.

Hereupon, with the demonetization of Rs. 500 and Rs. 1,000 bank-notes last month, a lot of hassles will get sorted for both the institutes as well as parents. On parts of both ends, the cash management gets eliminated and there is total management system accountability for the money trails. Auto debit to the payer account and credit to the receiver account ensures that there are no chances of any revenue leakage in the system. In addition, it will ensure that capex (capital expenditure) and opex (operational expenditure) accountabilities are assigned to the right heads rather than facing issues of reconciliation.

One of the key advantages of the demonetization step is that it will create a level-playing field for aspiring and deserving students, who are unable to pay capitation fee, which has been widely prevalent in the Indian private education system. Capitation fee is a transaction whereby an institute that provides educational services collects a fee that is more than what is approved by regulatory norms. In simple words, this is the money paid to the educational institute by parents of such students who have underperformed in their academics, but who get admission based on capitation fee. It is commonly called donation, and some times the amount

is more than 100% of the usual fee.

Now, going forward, the amount of unaccounted wealth with many such parents is likely to considerably reduce, resulting in increased opportunities for those students who are capable, but previously edged out by capitation-fee-paying students.

The next wave of the demonetization impact is on the larger education ecosystem, where the management of campus vendors will go digital. Among other things, it will bring in discipline in payment management. Another change we are going to see is campus spend by students—transactional costs for canteen, monthly food bill, buying stationary, getting academic notes arranged and so on. Until now, everyone used to carry cash for petty educational expenses, which, it is expected, will go digital. It may be a lesser-talked-about thing, but the fact is that short-term loans between students are commonplace and its accountability has always been an issue. Similar are credit transactions between students and campus vendors. Now, it is expected that students will have a digital wallet and will be able to keep track of receivables and payables, bringing maturity and discipline in campus money management.

Demonetization will also lead to a high proportion of people changing their purchase habits and increasingly using online payment wallets, credit and debit cards, to carry out transactions. The education sector will benefit from the efficiencies brought by this new payment infrastructure, in terms of fee payments, benefiting both educational institutions and parents/students.

Demonetization, it is expected, will result in a large proportion of unaccounted/black money going out of circulation. This, in conjunction with the cash collected due to recent spate of bank deposits, will help the government increase its expenditure on key public sectors, including education. Making of world-class campuses is possible only when the money is available on the table. With the same becoming accountable, the dream of achieving Ivy League standards by educational institutes will get closer to being realized.

Demonetization and the subsequent increase of payments through the banking system for purchases by the population will increase tax collection by the government from 4% to a

higher proportion of the population. Even if one were to assume similar levels of system leakages, as previously, in terms of use of tax money towards creating public infrastructure, the extra tax collection should lead to a higher level of government expenditure towards sectors, including education. This can help improve physical infrastructure and facilities, increasing salaries of teachers and staff, and provide an overall lift to the sector in India.

Conclusion

Be it financial market or the corporate training sessions, Demonetization has not just affected the schools, colleges and private classes, however the entire educational and vocational learning Industry. All the Management Institutes in the country are experiencing surpassing effects of demonetization on the admissions and payment procedures.

Various public conferences and seminars have led to conclusions on financial conversations and finding possible alternative solutions for the cash crunches in the demonetization process. Availability of the new currency notes and usage of plastic money has just been an equal daily struggle of the masses. Getaways and turntables spinning on plastic swipers is becoming a trend in the youth. E-money and Alternate digital currencies like Bit coins and Nano coins are also harnessing on Awareness campaigns in this trend.

Unlike common office goers and business owners apart from day jobbers are those students from schools and colleges & home office freelancers who are quickly gearing up with this changing trend of plastic money and e-transfers over cash transactions. However the urban-suburban mix of Indian society has its own advantages and disadvantages. On one side the poor and the rich can survive and bloom in the same city living next to each other. However the bitter end is experienced by the common masses who don't fit in cash loving day jobbers or the rich class spendthrifts.

Educational Institutes also have a high obligation to make the merit achievers stand in queues for payments and transactions. Demonetization has also got the inflation hypes in control and also affecting the trends following the matrix of society. Practical Training approaches in developmental processes like all the industries have a quicker changing trend than actually seen by the socialists. Rampant movements in the process have little or no effect

on the general masses as they have become so accustomed to the fast changing vibes of the current economical, political, social and spiritual changes on our geography along with the rest of the planet.

Business oriented law courses for working professionals are giving discounts on e-money usage and executive apprentice programs are also being paid in plastic money.

Parents seeking admissions for their children in higher studies and working professionals going through authority crunches are juggling between banking and educational institutes for arranging their finances on top of their monthly spends. Entertainment and Hospitality industries just like the others are also evenly spaced on the Demonetization of currency in the country.

Demonetization has had its effects on hostilities and single rural students staying in the city who are also facing challenges paying for room rents and mess fees apart from other necessary daily expenses. Uniforms for sports events meetings, banners and courier charges are just a few other transactions delayed in the short run.

While the effect and extent of black money have been exposed by the recent episode, it is quite clear that the presence of unaccounted money in education and learning industry was no less than significant. The donations and bribery involved in admissions in educational institutions had risen to a great extent that disrupted the parity of the admission system. A huge part of this unaccounted fee was afforded by the elite class and was paid in cash. The new system in place would lead to a significant, if not complete, reduction in these malpractices.

Education loans rates are expected to go down making the education more affordable. This means that meritorious students would find it easier to afford education in the US or some premier Indian universities that charge a high fee. Though the effect of demonetization is anticipated to cut down the volume of Indian students going to the US, it would be temporary in nature.

In short, it can be said that the move, if implemented as per the plan, would be a good move to ensure quality in education and benefit masses from it.

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Impact of Demonetization on Tourism Industry

Tulasi.B.V⁷⁵ and Dr. Araskumar. M.R⁷⁶

Abstract

Indian government has taken a bold decision on note ban on 08/11/2016. Central government was a judicious, well-thought out and well-implemented step, and whether it would really eradicate all the existing black money. It is vital for an economy to initiate real change so that they can start to regain the public's trust and rebuild their brands reputations.

The action of demonetization leads to equal and opposite reaction by the various sectors of the economy. Tourism is a significant sector of the Indian economy and contributes significantly to the country's Gross Domestic Product (GDP) and Foreign Exchange Earnings (FEE). The Indian tourism sector is also linked with important sectors such as transportation, infrastructure, and handicraft, which further helps in the growth and development of the country. India currently holds the 12th position in Asia and 68th position in the overall list of world's most attractive tourist destinations, as per the Travel and Tourism Competitiveness Report 2016 by the World Economic Forum (WEF). The economy of the state depends mainly on tourism. The importance of tourism as an instrument for economic development and employment generation, mainly in remote and backward areas, has been well documented the world over. Travel and tourism is the largest service industry globally in terms of gross revenue and foreign exchange earnings. Tourism has become a popular global leisure activity. Travellers and tourists to India may however not find it so un daunting. This study will help us to know about the positive and negative impact of note ban decision taken by Indian government in Tourism Industry. This study is purely based on secondary data, which is collected from newspapers, magazines, websites from internet, some useful books related to topic etc.

KEYWORDS: *Note ban, Demonetization, Tourism Marketing, Foreign Exchange Earnings, Gross Domestic Product, World Economic Form.*

Introduction

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Demonetization is an essential economic step in which some old currency is declared to be invalid. This is usually done whenever there is a change of national currency, replacing the old currency with a new one. Indian Economy has witnessed Demonetization three times till date. It was a historic day Nov. 8, 2016 when Prime Minister of India Sh. Narinder Modi Ji addressed to the Indian Economy and declared that currency notes of 1000 and 500 will not be a legal tender of money. In India Demonetization has been done three times. 1946, 1978 and in 2016. In first Demonetization the circulation of Rs. 1000, 5000 and 10,000 were taken out from January 1946 and in 1954 all these notes were Reintroduced. In 1978 high value notes were ceased to be legal tender at close of banking hour. The Third Demonetization has been done on Nov. 8, 2016. All 500, and 1000Rs. Notes has been ceased. All banks and treasuries shut for transactions on January 17.

The importance of tourism as an instrument for economic development and employment generation, mainly in remote and backward areas, has been well documented the world over. Travel and tourism is the largest service industry globally in terms of gross revenue and foreign exchange earnings. Tourism has become a popular global leisure activity. India offers myriad flavours mingling in the steam of a country coming of age. Teeming with over a billion people who voice over a million concerns in fifteen hundred different languages, India is where people live with variety, thrive on diversity and are too familiar with largeness to let it boggle them. Travellers and tourists to India may however not find it so un daunting.

The government's main objectives of note ban is, to eradicate counterfeit currency, resist tax evasion, destroy the black money, and terrorist financing activities, and to encourage the country towards the cashless economy and also how the demonetization affects the Tourism Industry. This decision taken by government is for welfare of the nation and also the development of the Tourism Industry, but so many questions comes in mind that, would note ban decision actually eradicate the black money as well as the progress of Tourism.

Objectives of the Study

- To know the impact of the note ban decision on tourism industry.
- To know the impact of government steps on control over tourism industry in India.
- To bring out tourists' perceptions, about facilities, problems faced by them and suggestions to overcome the problems after demonetization.

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- To measure tourist satisfaction by examining the impact on demonetization overall tourist satisfaction.

Scope of the Study

The tourism industry comprises of players like tour operators, tour agencies, vehicle operators, hoteliers, booking agents and administrators of tourism spot. Until the Second World War, tourism was the casual activity. However, the post II World War Era witnessed mass movement of people to different places for pleasure, thus, paving the way for upsurge in tourism.

This study will helpful for the tour operators, tour agencies, vehicle operators, hoteliers, booking agents after demonetization. Through this study government will be able to know about the future conditions of Tourism Industry. This study also help to the government about the policy making for the betterment of the development in Tourism Industry. Any tour operators, tour agencies, vehicle operators, hoteliers, booking agents can also take the wise decision so that they will be able to know the impact of demonetization in Tourism. Finally everybody would be able to know the impact of note banned decision on Indian economy, Indian markets as well as Indian Tourism Industry.

Data Collection

Secondary data has used for the study. Secondary data is collected from library, text books, and journals, articles from newspapers and from relevant websites available on internet.

Research Design

This study comprised the descriptive research design. It reports the past and present situation of the public intention towards government action on the development of tourism industry.

Impact of Demonitization in Tourism Industry

In a very bold and historic move by the Honourable Prime Minister of India, all currency in denominations of INR 500 & INR 1000 have ceased to be an illegal tender effective from the 9th of November 2016.

For Domestic Travellers

If any person in the middle of an on going domestic tour, they can be affected by the demonetization, which it comes to spending on the tour. If the notes of INR 500 & INR 1000

notes are not being accepted, then that person's shopping list can get shorter & the hotel services and the taxi services might not accept any illegal tender. So, making the bookings online or using cards to pay taxi & hotel, can be easy solution to making a successful trip.

For the Outbound Travellers

Booking through local agents, where someone pay the cash for the trip, if that might not workout as paying for the foreign trip with notes of INR 500 & INR 1000 would not be possible in most of the cases. So, this could be done to took through professional travel companies, where the options of fully paid trip is possible.

For the Inbound Travellers

Travellers coming to India from outside countries they may have to face some issues due to the on going process of demonetization. Making payments with notes in the denomination of INR 500 & INR 1000 would no longer be accepted in many of the places. Online booking for Indian tour packages can be good way for an amazing holiday even in the entire process. So, the Government of India has allowed certain places & institutions to accept the INR 500 & INR 1000 notes up till 24th November 2016. These places include the Government Hospitals & Chemists, Railway ticket counters, Airline ticket counters, currency exchange at international airports, petrol stations, bus ticket counters.

For the Airline Booking

The unexpected ban has been severe impact on Airline booking as well, most of the travellers cancelling or postponing their trip. But, with the effective economy, the bookings have rise up.

Conclusion

Today, Demonetization has led to an increase in the member of online bookings. However, all tourists especially foreigners, find it difficult to make local purchases & payments. Demonetization also left the tour guides almost useless & jobless due to money supply in the country. After demonetization, the most affected segment is that for foreign trips, disposing of black money is in big amounts. But, it did not affect their regular & loyal customers. Therefore, for small & local stores, vendors especially in cities that depend on tourism, demonetization as a curse, but as for travel agencies, and their small game still stand strong.

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Impact of Demonetization on Indian Stock Market

Mr. Muttesha N⁷⁷ and Ms. Uma S⁷⁸

Abstract

The major purpose of present study is to find out pre and post impact of demonitisation on Indian capital market. The objectives of present study include, To know the stock market condition after the effects of demonetization, To gain knowledge by making reports relating to stock markets, To know the regulatory frameworks for the stock market. The secondary data has been used to prepare present paper. The researchers framed three hypotheses and tested by using statistical tools. Analysis and interpretation is written by using tables and graphs.

Keywords: *Demonetization, NIFTY, Sensex, BSE, NSE*

Introduction

Most of the trading in the Indian stock market takes place on its two stock exchanges. There is namely Bombay Stock Exchange(BSE) and another is National Stock Exchange (NSE). The BSE has been existence in 1875. And NSE was founded in 1992, trading activities started in 1994. These exchanges follow the same trading system like trading hours, settlement process are same & etc. Almost all the firms of India are listed on these two exchanges. Trading hours follow a T+2 rolling settlement. Trading activities take place on Monday gets settled by Wednesday all trading activities started in stock exchanges on Indian standard time 9.55 am & 3.30 pm. These two markets includes the market indexes are Sensex and Nifty Sensex is the oldest markets index for equities; it includes the shares of 30 firms listed on BSE another index S&P CNX Nifty includes 50 shares listed on NSE.

The overall exchange responsibility and regulation includes in the Securities & Exchanges Board of India (SEBI).

Objectives of the Study

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- To know the stock market condition after the effects of demonetization.
 - To gain knowledge by making reports relating to stock markets.
 - To know the regulatory frameworks for the stock market.

Review of Literature

1. **Mr. Sunil T, Ms. Smitha V Shenoy** [Impact of Demonetization on Stocks of Selected Sectors – An Event Study, International Journal of Research in Finance and Marketing (IJRFM), Vol. 7 Issue 5, May – 2017, pp. 29~38 ISSN(o): 2231-5985] Demonetization is an act of seizing a currency unit of its status as legal tender. Demonetization is necessary whenever there is a need to change national currency. The government claimed that the action would “curtail the shadow economy and crack down on the use of illicit and counterfeit cash to fund illegal activity and terrorism”. Demonetization in India and President Election in US affected stock market, where market indices dropped to six months low in the week following the announcement of demonetization. BSE crashed around 1689 points and NIFTY over 541 points. Hence there is a need to understand how much the demonetization has affected the stock prices and to analyse the stock price movement pre and post demonetization.

The Objectives of the study were (a) to measure the returns of the selected stocks, pre and post demonetisation, using Holding Period Return and BHAR,(b)to find the expected returns of the selected stocks pre and post demonetisation, using CAPM Model and (c) to study the impact of Demonetization on stock prices of selected sectors. This study focuses on impact of demonetization on stock prices of 5 selected sectors, Automobiles, Banking, Consumer Durables, Telecommunication and Real Estate. 5 companies in each sector were considered for this study. The closing prices of stocks for last 6 months were used to find the returns, starting from 7th September 2016 to 8th march 2017 which consists of data of 2 months before demonetization and 4 months after demonetization. Realised return, CAPM Return and BHAR analysis has been carried out in the study. Using ANOVA on the BHAR in the three windows, it was concluded that demonetisation had no impact on stock returns during the study period

2. **Swati Chauhan, Nikhil Kaushik** [Indian Journal of Accounting (IJA), ISSN : 0972-1479 (Print) 2395-6127 (Online) Vol. XLIX (1), June, 2017, pp. 127-132] Demonetization is the act of divesting a currency unit of its status as legal tender. It is

a tool to handle black money in the economy by lowering the cash circulation in the country which is directly concerned with the corruption. It directly or indirectly influences the various sectors. The effect of taking out so much money from the market is obviously affect the various sectors, which are driven by the black economy like real estate, construction, etc. But this move of government has also affected those sectors that are driven by cash because they are the first that are affected when so much money is suddenly removed from circulation. This research paper is trying to analyze the impact of demonetization on Indian Stock market. This study is using Event Study Methodology to analyze the stock of S&P BSE 100 companies. The result is being observed from the comparison of both pre and post-event window and found that there is no significant impact of demonetization on the stock market. The study also found that this short period downfall in the stock prices can be due to some other factors.

3. **Dr.P.Chellasamy, Anu.K.M,** [Impact of Demonetisation on Indian Stock Market: With Special Reference to Sectoral Indices in National Stock Exchange of India, IOSR Journal of Economics and Finance (IOSR-JEF) e-ISSN: 2321-5933, p-ISSN: 2321-5925. Volume 8, Issue 3 Ver. I (May. - June. 2017), PP 51-54] The study focussed on the impact of demonetisation on the Indian stock market. The role of cash transactions in an informal economy is critical. With 86 percent of the monetary base being washed off, economic activity in the short run is likely to be adversely impacted. Study revealed that Public sector banking segment, Pharma, Energy and IT has recorded a rise in returns after the announcement of demonetisation. The study concluded that the there is a wide spread negative returns across sectors after demonetisation which reflects the immediate negative sentiments attached with the overall economic activity.
4. **Bharadwaj R, et.al** [IMPACT OF DEMONETIZATION ON INDIAN STOCK MARKET, International Journal of Management (IJM) Volume 8, Issue 3, May–June 2017, pp.75–82,, ISSN Print: 0976-6502 and ISSN Online: 0976-6510] The purpose of the study is to analyse the impact of demonetisation on Indian stock market using efficient market hypothesis with Demonetisation as key factor. Taking up the sample of 16 companies from National Stock Exchange India from 2012-16 and for 5 months separately from November'16 to March'17, Optimum portfolio construction is being done using Sharpe index model and the risk and return values are being considered for

the analysis for both pre and post demonetisation closing stock values. The result is being observed from the comparison of both pre and post demonetisation, there is a significant impact of Demonetisation on Indian stock market where there is some fluctuation been observed in the analysis of the values of Stock market..

Need for the Study

For the purpose of this study is analysis of the stock market activities by the effect of demonetization. What are the positive as well as negative point's impacts on BSE stock markets. How much it helps to stock markets and how impact on negative way. And it helps to the knowing what the problems are facing by the stock markets. This study also relating to identifying the before and after effect of demonetization on stock markets. The main intension of this study to know the economic stability in stock markets and to improve the stock market trading activities in present and future period.

Research Methodology

This study focuses on secondary data. Data collected through the various books, government reports, publications from various websites and national and international journals, which would on various aspects of demonetisation. This research analysing the BSE Sensex, Gold price, Sensex and Nifty, Sensex before six month demonetisation from 1st June 2016 to 8th November 2016 and it considered after six month demonetisation from the 9th November 2016 to 31st May 2017 data can be analysing.

Secondary Data

The data collected from the newspaper, magazines journals, annual sales reports and internet sources. It is already existing data. It is not an original data.

Hypotheses

H1: There is no significance difference between impact of demonetisation on BSE Sensex before and after demonetisation.

H2: There is no significance difference between impact of demonetisation on NIFTY before and after demonetisation.

H3: There is no significance difference between impact of demonetisation on GOLD rate before and after demonetisation.

Limitations of the Study

- This study only concentration on BSE Stock Market.
- This study based on secondary data, the data may be duplication, and this is not an original data.
- This study is based on published and information.
- The objectives, nature and methods used to collect secondary data may not be appropriate to the present study.

What is demonetisation?

Whenever a particular currency note stops being a legal tender, it is known as demonetisation. This means, in the current scenario, two things happened:

- Currency rate of demonetisation 500 is just phased out because new design has been circulated.
- Currency note of demonetisation 1000 been demonetised because that particular demonetisation will no longer exist. Instead, Government of India has circulated and higher demonetisation note of INR 2000.

This isn't the only demonetisation India has experienced. In the past, demonetisation took place twice. The table below will give a quick overview of the same:

Year of demonetisation	Currency notes demonetised.
1946	INR 1,000 and INR 10,000
1978	INR 1,000, INR 5,000 and INR 10,000
2016	INR 5,00 and INR 1,000.

Reasons for recent demonetisation:

Now, one of biggest question is, 'why did the recent demonetisation take place?'

These recent demonetisation had multiple motives behind it. These motives include;

- Clampdown on black money and making Indian economy free of black money in future.
- Uprooting corruption from Indian economy and making a corruption-free India.

- Driving India into becoming a cash-free economy in near future which will prevent rebirth of black money and corruption.
- Ending counterfeit money which supports terrorism, and hence, effectively parleying cross border terrorism.

“Demonetisation” is the most discussed topic on news media and social networks and among the poorest people to the richest people in India since last one month. Indian Government has demonetised the largest denomination currency notes i.e ₹500 and ₹1000 from November 9, 2016. While announcing this, our Prime Minister Narendra Modi has stated that the main aim of this measure is to eliminate fake currency; inflicting losses on those with black money; and disrupting terror and criminal activities. Later, objectives are extended on enabling growth in bank credit and turning India into a cashless economy. This surgical strike of Indian Government has stolen the sleep of many people who hold black money and affected even the life of common man of the society. In spite of some inconveniences this decision has got wide support from the people. But in contrary many of opposition party leaders and some economists such as former Prime Minister Dr. Manmohan Singh, has opined that it will have adverse effect on Indian Economy in the long run.

In this context there is a need to analyse the economic condition of India before and after Demonetisation. Economic condition of a nation is measured and reflected through various economic indicators such as Stock market indices, Gross Domestic Product, Unemployment rate, exchange rate, consumer price index, consumer leverage ratio, industrial production, bankruptcies, etc. These economic indicators allow us to analyse the present economic performance and predict future performance. Apart from stock market indices most of the other indicators depict the long term financial health of an economy. But stock market indices are highly sensitive and they fluctuate according to the influence of various factors.

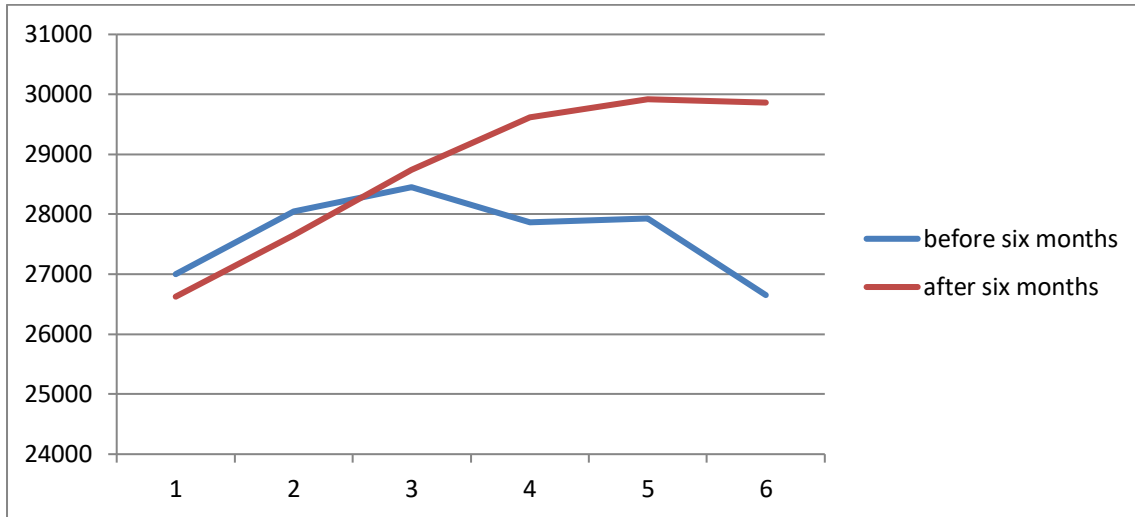
Data Analysis and Interpretations:

TABLE-1: Table showing the BSE Sensex before six months and after six months of demonetisation.

Months	Before six months	After six months
1	26999.72	26626.46
2	28051.86	27655.96

3	28452.17	28743.32
4	27865.96	29620.50
5	27930.21	29918.40
6	26652.81	29858.80

Source: official report



Degree of freedom	Level of significance @ 5%
V= n-1	Calculated value= 1.805
V=6-1	Table value=2.571
V=5	

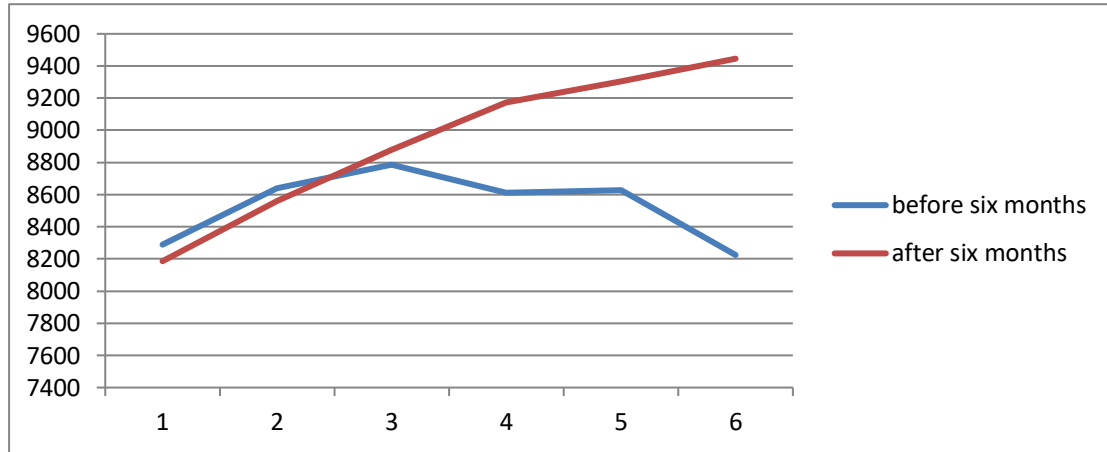
Level of significance @ 5%, and calculated value is 1.805, the table value is 2.571, hence the calculated value is less than the table value null hypothesis is accepted.

TABLE:2 Table showing the Nifty Sensex of before six months and after six months demonetisation.

Months	Before six month demonetisation	After six month demonetisation
1	8287.75	8185.80
2	8638.50	8561.30
3	8786.20	8879.60
4	8611.15	9173.75

5	8625.70	9304.05
6	8224.50	9445.40

Source: official report

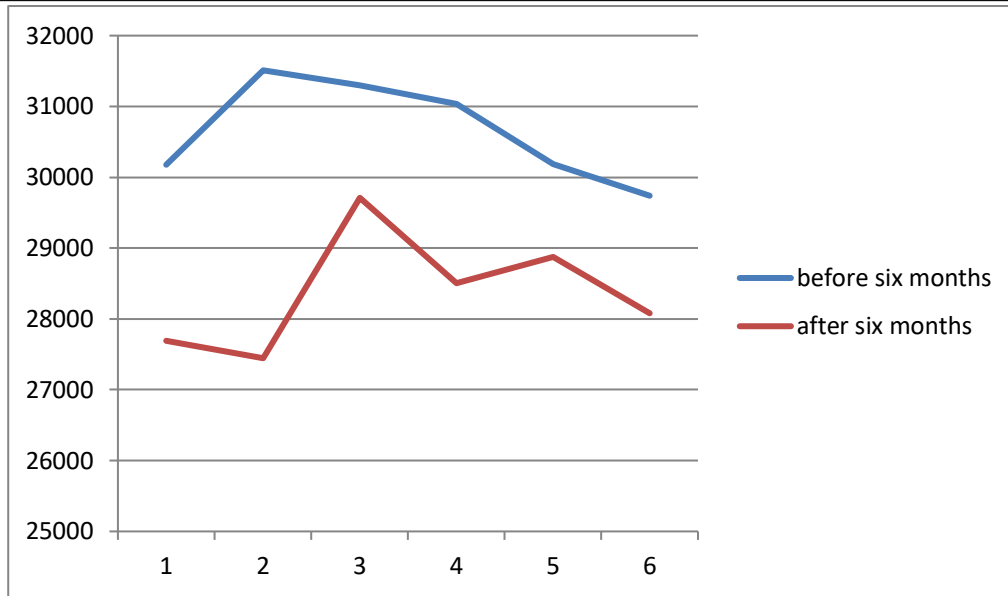


Degree of freedom	Level of significance @ 5%
V= n-1	Calculated value= 1.866
V=6-1	Table value=2.571
V=5	

CONCLUSION: Level of significance @ 5%, and calculated value is 1.866, the table value is 2.571, hence the calculated value is less than the table value null hypothesis is accepted.

TABLE-3: Table showing the Gold rate before six months and after six months of demonetisation.

Months	Before six month demonetisation	After six month demonetisation
1	30180.5	27694.5
2	31510	27445
3	31302.5	29710
4	31035	28505
5	30182.5	28873
6	29739.5	28083



Degree of freedom	Level of significance @ 5%
V= n-1	Calculated value= 5.571
V=6-1	Table value=2.571
V=5	

CONCLUSION: Level of significance @ 5%, and calculated value is 5.517, the table value is 2.571, hence the calculated value is more than the table value null hypothesis is rejected.

Findings

- Since 9 November, in the Asia-pacific region. India was the second worst performing market as the Sensex lost 1,041 point or 3.8 per cent since 8 November, behind hang seng's 4.9 per cent drop.
- The Sensex since 31 December, 2015, shot up a whopping 2927 points to touch the year's intraday high of 29045 on 8 September. For the year up to 8 November, the benchmark index raise to 1474 pints, or 5.6 per cent before giving away most of its gain thereafter post the demonetisation announcement.
- Index's Nifty (down 3.5%) was the second performing index in Asia after Philippines and the forth globally-after Mexico (down 5.9%), Brazil (4.3%) and Philippines (down 3.9%).

Conclusion

Stock indices are like mirror of economic health a country, by analysis the BSE Sensex value I founded that demonetisation has severely affected it. All the indices are variation in Sensex values before and after demonetisation, but it is not judgemental to analysis the impact of demonetisation. The negative impact that should up in stock market after demonetisation is gradually rebounding back to normally. Over time, the stock market will improve as consumer demand rekindles with injection of new cash.

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The Positive and Negative effects of Demonetization in India

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Abstract:

This paper made explanation on demonstration by government of India had took a bold step to demonetize Rs 500 and Rs 1000 currency, which means that the legal tender of currency units is declared invalid from the specified date. Demonetization of currency means discontinuity of the said currency from circulation and replacing it with a new currency. Most of the people hailed the Modi's strong decision, while poor were shocked by the move. The overnight decision changed the life of many as black money holders were worried about the pile of cash they were sitting on. Many poor daily wage workers were left with no job and income as owners were unable to pay their daily wage. It is no doubt a bold step taken by the government which will definitely help India to become corruption-free.

Keywords: *Demonetization, Effects as Positive and Negative of demonetization, human trafficking, Hawala, GDP, Dumping of agricultural production etc.,*

Introduction:

In 2016, the Indian government decided to demonetize the 500- and 1000- rupee notes, the two biggest denominations in its currency system; these notes accounted for 86% of the country's circulating cash. With little warning, India's Prime Minister Narendra Modi announced to the citizenry on Nov. 8 that those notes were worthless, effective immediately – and they had until the end of the year to deposit or exchange them for newly introduced 2000 rupee and 500 rupee bills.

Chaos ensued in the cash-dependent economy (some 78% of all Indian customer transactions are in cash), as long, snaking lines formed outside ATMs and banks, which had to shut down for a day. The new rupee notes have different specifications, including size and thickness, requiring re-calibration of ATMs: only 60% of the country's 200,000 ATMs were operational. Even those dispensing bills of lower denominations faced shortages. The government's restriction on daily withdrawal amounts added to the misery, though a waiver on transaction fees did help a bit. Small businesses and households struggled to find cash and reports of daily wage workers not receiving their dues surfaced. The government's goal (and rationale for the abrupt announcement) was to combat India's thriving underground economy on several fronts: eradicate counterfeit currency, fight tax evasion (only 1% of the population pays taxes), eliminate black money gotten from money laundering and terrorist-financing

activities, and to promote a cashless economy. Individuals and entities with huge sums of black money gotten from parallel cash systems were forced to take their large-denomination notes to a bank, which was by law required to acquire tax information on them. If the owner could not provide proof of making any tax payments on the cash, a penalty of 200% of the owed amount was imposed.

Demonetization:

Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency: The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Sometimes, a country completely replaces the old currency with new currency.

Positive Effects:

1. Human trafficking

Nobel laureate Kailash Satyarthi and others working to fight human trafficking said that the note ban had led to a huge fall in sex trafficking. Satyarthi said the demonetisation would be effective in combating exploitation of children as well as corruption and would be a great obstacle to traffickers. However, 2 months later he expressed his disappointment on Rs 2000 notes being pushed into human trafficking in absence of other concrete steps.

2. Radical groups

The Demonetization has badly hit Maoist and Naxalites as well. The surrender rate has reached its highest since the demonetization is announced. It is said that the money these organizations have collected over the years have left with no value and it has caused them to reach to this decision. The move also reportedly crippled Communist guerrilla groups (Naxalites) financing through money laundering. On 10 November the police arrested a petrol pump owner at Ranchi when he reportedly tried to deposit Rs. 2.5 billion, belonging to a person affiliated with the banned Communist Party of India (Maoist). According to Chhattisgarh Police demonetisation has affected the Naxalite activities. It is reported that insurgents have stashed more than Rs. 70 billion in the Bastar region. While Manohar Parrikar claimed that the move has also helped in reducing the incidents of stone-pelting in the Kashmir valley, his claim has been disputed.

3. Hawala

Mumbai Police reported a setback to Hawala operations. Hawala dealers in Kerala were also affected. The Jammu and Kashmir Police reported the effect of demonetisation on hawala transactions of separatists.

Negative Effects:

1. Cash Shortage

The scarcity of cash due to demonetisation led to chaos, and most people holding old banknotes faced difficulties exchanging them due to endless lines outside banks and ATMs across India, which became a daily routine for millions of people waiting to deposit or exchange the Rs.500 and Rs.1000 banknotes since 9 November. ATMs were running out of cash after a few hours of being functional, and around half the ATMs in the country were non-functional. Sporadic violence was reported in New Delhi, but there were no reports of any grievous injury people attacked bank premises and ATMs, and a ration shop was looted in Madhya Pradesh after the shop owner refused to accept Rs.500 banknotes. The CMD of Punjab National Bank said that panic after demonetisation started fading on 19 November 2016. As of 18 December 2016, there were still long queues at banks and ATMs.

2. Deaths

Several people were reported to have died from standing in queues for hours to exchange their old banknotes. Deaths were also attributed to lack of medical help due to refusal of old banknotes by hospitals. As of 15 November 2016, the attributed death toll was 25 and 33 deaths as of 18 November. In an interview, Chief Minister of Delhi Arvind Kejriwal lashed out at a BBC reporter who asked him to justify his 19 November claim that 55 deaths were linked to demonetisation. By the end of the year, opposition leaders claimed that over 100 people had died due to demonetisation.

3. Stock Market Crash

As a combined effect of demonetisation and US presidential election, the stock market indices dropped to an around six-month low in the week following the announcement. The day after the demonetisation announcement, BSE SENSEX crashed nearly 1,689 points and NIFTY 50 plunged by over 541 points. By the end of the intraday trading session on 15 November 2016, the BSE SENSEX index was lower by 565 points and the NIFTY 50 index was below 8100 intraday.

4. Transportation Halts

After the demonetisation was announced, about 800,000 truck drivers were affected with scarcity of cash, with around 400,000 trucks stranded at major highways across India were reported. While major highway toll junctions on the Gujarat and Delhi-Mumbai highways also saw long queues as toll plaza operators refused the old banknotes.

5. Agriculture

Transactions in the Indian agriculture sector are heavily dependent on cash and were adversely affected by the demonetisation of ₹500 and ₹1,000 banknotes. Due to scarcity of the new banknotes, many farmers have insufficient cash to purchase seeds, fertilisers and pesticides needed for the plantation of rabi crops usually sown around mid-November. Farmers and their unions conducted protest rallies in Gujarat, Amritsar and Muzaffarnagar against the demonetisation as well as against restrictions imposed by the Reserve Bank of India on district cooperative central banks which were ordered not to accept or exchange the demonetised banknotes.

6. Dumping of Agricultural Production

The demonetization led to unavailability of cash to pay for food products. The reduction in demand that arose in turn led to a crash in the prices of crops. Farmers were unable to recover even the costs of transportation from their fields to the market from the low prices offered. The prices dropped as low as 50 paise per kilo for tomatoes and onions. This forced the farmers across the country to dump their products in desperation some farmers resorted to burying unsold vegetables. Agricultural produce such as vegetables, food grains, sugarcane, milk and eggs were dumped on roads. Some farmers dumped their produce in protest against the government.

7. Banking

Between November 10 and November 27, banks reported exchange and deposits of demonetized banknotes worth Rs. 8.45 trillion (exchange of Rs.339.48 billion and deposits of Rs.8.11 trillion). During this period, an amount of Rs.2.16 lakh crore had been withdrawn by people from their accounts.

8. Business

By the second week after demonetization of Rs.500 and Rs.1,000 banknotes, cigarette sales across India witnessed a fall of 30–40%, while E-commerce companies saw up to a 30% decline in cash on delivery (COD) orders. Several e-commerce companies hailed the

demonetization decision as an impetus to an increase in digital payments. They believe that it would lead to a decline in COD returns which is expected to cut down their costs.

The demand for point of sales (POS) or card swipe machines has increased. E-payment options like PayTM and Instamojo Payment Gateway, PayUMoney has also seen a rise. According to data of Pine Labs, the demand for its POS machines doubled after the decision. Further it states that the debit card transactions rose by 108% and credit card transactions by 60% on 9 November 2016.

9. Drop in Industrial Output

There was a reduction in industrial output as industries were hit by the cash crisis. The Purchasing Managers' Index (PMI) fell to 46.7 in November from 54.5 in October, recording its sharpest reduction in three years. A reading above 50 indicates growth and a reading below shows contraction. This indicates a slowdown in both, manufacturing and services industries. The PMI report also showed that the reduction in inflation in November was due to shortage in money supply.

The growth in eight core sectors such as cement, steel and refinery products, which constitute 38% of the Index of Industrial Production (IIP), was only to 4.9 percent in November as compared with 6.6 percent in October.

Conclusion:

This paper made explanation on demonetization with positive effects and negative effects. By studying this paper, the number of negative effects found instead of positive effects. It was largely burden to the society. The steps by the government as demonetization are not good to Indian even to nation. Therefore GDP in India is decreased at 5.7. Till today we cannot find any good cause from demonetization. As per RBI report, the RBI has get back at 99% of Rs.500 and Rs.1,000 circulated Notes. But the question is remained as unanswered why the GDP is going on decreasing level, terrorist activities are not stopped, corruption is opened freely in now days. Finally demonetization was made with political interest but not with development of nation.

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Demonetization: Impact of Economic Reforms on Indian Agricultural Sector

Prof. Narasimhamurthy T N⁸⁰

Abstract

Agricultural sector is the main earning livelihood in rural parts of India. Rural Indian economy around which socio-economic privileges and deprivations revolve and any change in its structure is likely to have a corresponding impact on the existing is likely to have a corresponding impact on the existing pattern of social equity. Sustainable agricultural production depends on the judicious use of natural resources (Soil, water, livestock, plant genetic, fisheries, forest, climate, rainfall and topography) in an acceptable technology management under the prevailing socio-economic infrastructure, various research studies and policy papers highlight that the Indian agricultural sector faces resource constraints, infrastructure constraints and policy induced limitations. To achieve sustainable agricultural development. It is essential to combine natural resources and human resources. As enabling technology information technology which are the drivers of globalization with their complementarities of Liberalization, Privatization and tighter intellectual property rights are bound to create new risks of marginalization and vulnerability in the Indian agricultural sector. To reduce the risks of marginalization and vulnerability. This paper suggests development of a comprehensive agricultural resources information systems using geometrics technology in districts with public funding facilitating sustainable agricultural development.

KEY WORDS: *Demonetization Currency, Economy, Agriculture and Export & Import.*

Introduction

Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency. The move by the government to demonetize Rs.500 and Rs.1000 notes by replacing them with new Rs.500 and Rs.2000 notes

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has taken the country with surprise. The move by the government is to tackle the menace of black money, Corruption, terror funding and fake currency, from a market perspective we think that this is a very welcome move by the government and which has taken the black the black money hoarders with surprise. The total value of old Rs.500 and Rs.1000 notes in the circulation is to the tune of Rs.14.2 trillion. Which is about 85% of the total value of currency in circulation. This means that the total cash has to pass through the formal banking channels to get legitimacy. The world bank in July 2010 estimated the size of the shadow economy for India at 20.7% of the Gross Domestic Product (GDP) in 1999 and rising to 23.2% in 2007. Assuming that this figure has not risen since then and that the cash component of the shadow economy is also proportional. The estimated unaccounted value of the currency could be to the tune of Rs.3.3 trillion. Now post the announcement of demonetization by the government this money would have to either account for by paying the relevant tax and penalties or would get extinguished. There are higher chances of larger proportion of this unaccounted currency legal issues could be prohibitively high for such money.

The positive macro benefits of this move the government this move by the government is likely to have long term benefits for the economy. The extinguishing of the major proportion of unaccounted currency would add to its finances. This can have very strong implication as the government would get money to spend without borrowing from the market. This would mean that while interest rates can be low. The government spending on large infrastructure projects would kick start capex cycle and push economic growth higher in the medium term.

RESEARCH METHODOLOGY: Data collected for preparing this paper from Secondary data, Journals, Reports periodicals and internet.

The specific objectives

- To examine the reason for demonetization in Indian economy.
- To examine the agriculture and export and import sector.
- To examine impact of science and technology.

Demonetization: The Impact on Economy.

Towards a common market Demonetization will push India towards a cashless economy. Jaitly center may propose 26% peak rate of GSTA compromised GST Odisha ratifies construction amendment bill for GST roll out. Government hopes that the labour pain induced by its decision to demonetize old currency notes of Rs.500 and Rs.1000 will pay off in the long run. To get an idea of the size of issue. CLSA has provided some interesting data. India has amongst the highest level of currencies in circulation at 12.1% of GDP. Cash on hand is an estimated at around 3.2% of household assets, higher than investment in equities or roughly around \$220 billion. Of this cash 87% is in the form of RS.500 and Rs.1000 notes or roughly Rs.14 lakh crore (\$190 billion) A significant portion of the household cash on hand is generated by economic transactions that are not reported to tax authorities or generated through corruption says the report scrapping the higher denomination money would either result in these being brought into the system or the money just disappearing. If the money disappears as some hoarders would not like to be seen with their cash pile the economy will not benefit. On the other hand, if the money finds its way in the economy it could have a meaningful impact.

Tax

Having classed the voluntary disclosure window for undisclosed money. It has been reported that government will keep a close watch on deposits over Rs.2 lakhs in cash. This would mean increased tax net, higher tax collection and a better tax to GDP ratio. Philips capital in a report says that the extent of parallel capital economy, which was 23.2% of GDP, is now around 25-30% of GDP. As the money gets accounted and more taxes are collected government might be tempted to reduce tax rates going forward.

Interest Rates

One of the biggest impact of demonetization would be high value transactions, especially land and gold. This would result in lower inflation tempting the central bank to reduce interest rates. But the bigger impact on interest rates will be the liquidity with which will be flushed. CLSA's points out that bank would benefit with higher CASA (Current Account Savings Accounts) growth as a part of the \$190 billion cash pile gets deposited with them. Higher deposit growth and continuing weak credit growth would create opportunities for lending rate cuts and investment activities to pick-up.

Liquidity

Movement of goods and money will be hit in the short. A Bank of America Merrill Lynch notes says that wholesale channel forms over 40% of the sales for the Indian consumer forms. This channel works mainly on cash transactions and will likely witness liquidity constraints in the near term. This could disrupt the supply chain and impact growth in the December quarter. The report further adds that consumer firms typically provide tight credit terms (less than 7 days) to the distributors, who in turn provide credit to the wholesalers / outlets on their own accounts. Due to overall tightening of the cash-liquidity in the supply chain. Consumer firms may be forced to offer easier credit terms to the distributors in the near term, as a result we expect an increase in their receivables in the December quarter.

Impact on Agriculture

Reports of stress in agriculture have begun to appear because of demonetization, cash is the primary mode of transaction in agriculture sector which contributes 15% to India's total output. Formal financing in many parts especially Punjab, Uttar Pradesh, Odisha, Maharashtra, Gujarat and Kerala is significantly from cooperative banks, which are barred from exchange deposit of demonetized currency. Notably this is a time of Kharif harvest and start of rabi sowing, partly explaining why this period is dubbed the 'busy season' from a standpoint of credit demand the other being bunching of festivals and weddings. Agriculture is impacted through the input-output channels as well as price and output feedback effects. Sale, transport, marketing and distribution of ready produce to wholesale centers or mandalas is dominantly cash dependent disruptions, breaks in the supply chains feedback to farmers as sales fall, increased wastage of perishables, lower revenues that show up as trade dues instead of cash in hand and when credited in to bank accounts with limited access affect the sector. Currently many of these networks are operating sub-optimally or altogether at a standstill, depending upon location market links and other item specific factors. The input side is equally affected as many payments / purchases, such as seeds, fertilizers, implements and tools are outright in cash. Borrowing financing operations of larger farmers and organized producers are also cut off or severely clipped. The impact is visible in different sub-segments. Winter crops such as wheat, mustard, chick peas are due for sowing in a fortnight wheat prices were already up due to low stocks and anticipated short fall in 2015-16 output and have formed up further as demonetization fallout pusher's traders to build more inventories. Production in 2016-17 could drop if sowed acreage (rabi) reduces for want of enough seeds on time to exploit the adequate

soil moisture yields could fall from late sowing and subsequent exposure to rough spring weather. The lack of sufficient or timely application of fertilizers, pesticides etc. Farm labour, vital for this period is reported to be unpaid as farmers have no cash. Many of them are reported to be returning from some northern parts to homes in up and Bihar. Labour shortages and wage spikes may follow with a lag. Plantation crops such as rubber, tea, Jute, cardamom are seeing no wages paid to workers, small-medium tea growers have few buyers now. Raw jute trade is halted as paucity of funds affects procurement delivery by traders. Projections of scarcity have appeared with appeals of official procurement support. Cotton is witnessing havoc; daily arrivals have plunged to 30,000 - 40,000 bales against the usual 1.5 to 2 lakhs bales at this time (harvest) as per reports and prices have soared 9% in a week pushing up global prices in turn. Arun Jaitley says govt. to announce more steps to ease cash crunch in rural areas.

Vegetable and fruits that along with crops added 61% of agriculture's gross value added in 2015-16 depends critically upon a cash strapped transport sector for daily supply network. Sales have dropped sharply (25-50%) across markets with occurrences of dumping. At present demand is repressed for want of currency, so prices are subdued, but eventually supply shortages could cause prices to rise. How long can the demonetization drag upon agriculture persist? And how soon could the segment rebound? The answer is up in the air at this point. Production patterns and cycles vary and there is little guidance as and 4-6 months for oil seeds, pulses and cereals, production losses in vegetables cannot be recouped and is a permanent loss. Lower cereals, oilseeds outputs would persist until the next harvest or about nine months and it is certain that incomes and profit margins will be hurt. Price and output effects will reflect all the above listed factors, this means considerable fluctuations, increased uncertainty and risk.

Impact of India's Export & Import

Growth of any country depends up on its exports and imports trade. Indeed, it is very crucial for India too. Especially after demonetization the exports have slowed down due to currency crunch. True to its core that instability in the exports leads to inflation and that in turn leads to an uncertainty of internal purchasing power and unstable economy. 8th November 2016 marked in history when India announced demonetization of its large currencies India's import and export business is hugely affected by the recent and shocking announcement of demonetization. The foreign trade industry is suffering in the aftershocks and shall continue to

suffer for a further period, through for limited time. However, the influx of money from the black market shall certainly improve to be beneficial in the long run for export, import trade. The fact lies at the moment that plunge in money supply with overflowing bank deposits ring an alarm in consumption demands, means decline in imports. The Indian government has always paid incentives and promoted export with policies nonetheless the exports market is taking a toll at the moment. Make in India projects need easy flow of currency for manufacturing, hence the import and export both trade have got their bottlenecks. This has changed the algorithm in today's economic situation. However stable exchange rate is an idle situation, as volatility vitiates the trade for India, for a few months India's exports may be slow but consider that for any acceleration the vehicle must be slow to begin with. I am sure that India shall come out with higher GDP and influx of foreign exchange with prosperous exports in sooner times than thought of in Modi's "Swachh Bharath" Mission exports is the best answer to bring in foreign exchange and make India prosper with "clean" business a scene without black or unaccounted money. Whishing and hoping our export, import to get back on its business toes soon to support the Indian economy.

Science & Technology

Information technology field undergone continuous changes and updated time to time. India and its corresponding allies would definitely get benefit and that is being seen and would be seen in near future, in different aspects and in different means of living. There are few challenges being faced but we hope that they would be resolved as soon as possible. When government announced the demonetization of the currency many thoughts came around me of the year 2000 problem, also known as Y2K problem, especially for IT enabled services. The millennium bug which hit the whole world. The software programs running in almost all the organizations had the date format as mm/dd/yy. So the year was approaching the year 2000, as we know the world today is automated and digitized some time back. We came across Y2K problem in the last year 2016. We have come up with another challenging task to handle the changes encountered due to the demonetization and the introduction of a new note i.e., 2000. Information Technology is like a part and parcel of almost every organization these days and so it was required to make necessary changes in the software related to the currency undergoing the amendments. The hardware was also recalibrated software used in the ATM's and Banks were rewritten. The people faced some or the other difficulty, but still people kept patience and

supported the government for its decision. We have safe mechanisms over the internet but still sometimes technology also faces some challenges.

Conclusion

Indian agriculture is marked by variety of problems viz... small and fragmented land holdings, unavailability of quality seeds, fertilizers, pesticides and lack of mechanization. Some of them are mitigated by using labour intensive strategy like regular manual weeding etc. for which agricultural laborers are used, which are paid in cash. Demonetization will further add new levels to already existing problems. India hazards its position of being the quicker developing biggest economy by lessened utilization that would prompt to the diminishment in wage, that would bring about weaken venture and may decrease India's GDP development as the liquidity effect itself may last 3-4 months or past in rural economy.

Demonetization as a clear out exercise may produce several good things in the economy. At the same time, it creates unavoidable income and welfare loss to the rural sections of the society who gets income based on their daily work and those who doesn't have the digital transaction culture. Overall economic activities will be dampened in the short term.

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Demonetization and its Effects on Co-operative banks in India

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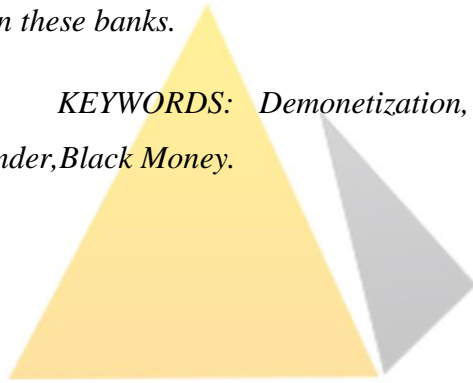
Abstract

This paper emphasis on the influence of demonetization on Banking Industry. The Study is taken into consideration of Cooperative Banks across the country after demonetization. Demonetization is peers' memorable practice and is going to be one of the economic events of our time. Its waves are felt by every citizen of India. Demonetization

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is good but it has to be taken into consideration that most of the black money is kept in the form of land, buildings or gold or kept abroad. Only 4% of the total amount of black money is in cash, on which taxes are not being paid. It's positive or negative effect affects economy of the country to a great extent. Hence, it becomes important to know how recent demonetization will affect the Banking industry. A lot of money is in circulation in everyday transaction. With move to demonetize Rs.500 and Rs.1000 notes by the central government had a strange fall out when Cooperative Banks, which are the backbone of the rural economy, have been paralyzed with the ban of accepting the old currency that are no long legal tender now. Cooperative banks have been the trusted centers to bank for millions of farmers and middle, low-income people for long. These institutions are known to offer them easier loan and deposit products and hence are the favorite institution for the poor. The restriction on the conduct of business after demonetization will have major impacts on these banks.

KEYWORDS: *Demonetization, Co-operative Banks, Money Circulation, Legal Tender, Black Money.*



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Introduction:

On November 8, 2016, the Government of India decided to cancel the legal-tender charisma of bank notes of Rs. 500 and Rs. 1000 denominations. In addition to cancelling the legal-tender character of bank notes, the Government of India also restricted the rupee value of withdrawals by persons from Automated Teller Machines, placed restrictions on the notes exchangeable at banks, and disallowed the banking functions of cooperative banks. These notes accounted for 86% of the country's cash supply. The government's goal was to eliminate *fake* currency, fight tax evasion, eliminate black money gotten from money laundering and terrorist financing activities, and promote a cashless economy. By making the larger denomination notes worthless, individuals and entities with huge sums of black money gotten from parallel

cash systems were forced to convert the money at a bank which is by law required to acquire tax information from the entity.

The move has hit several people, including farmers, housewives and retired government officers, who depend entirely on banks. The huge deposit base should be seen as a mark of accessibility and trust of ordinary people in banks. The banking correspondents (BCs) system hasn't worked well so far though. Banking correspondents are agents of banks who operate in areas where there are no bank branches. The BCs collect deposits and offer loan products on behalf of the banks.

Cooperative banks are particularly important for farmers and lower income groups who want small ticket loans in less time in relation to larger banks. Lakhs of rupees are frozen in cooperative bank accounts, money that people have saved for a particular purpose: they have to get their daughter married or build a house – now that purpose has got defeated. They cannot get that money out. According to data from NABARD, there are 32 state cooperative banks, 371 district central cooperative banks (DCCBS) and 93,367 Primary Agricultural Credit Societies (PACS) as on 31 March 2016.

Why cooperative banks should matter to us?

There are a couple of reasons why the government and the Reserve Bank of India (RBI) did not allow cooperative banks to accept or exchange old notes for the new currency. The checks and balances at these banks aren't perceived to be strong enough to counter efforts to push black money into the banking system. Cooperative Bankers too aren't trained well. These banks aren't as tightly regulated as scheduled commercial banks. Most of these banks are indirectly controlled by politicians or local businessmen. Hence, there is, of course, reason to worry to let these banks participate in such a massive exercise. But, by choking funds to cooperative banks and prolonging the crisis can inflict significant damage to the health of several cooperative banks, which are already on the verge of closure. The small ones are more vulnerable.

The cooperative sector has largely been a failure on account of the accumulated losses, etc, but that situation is beginning to change after an overhaul initiated by the RBI and NABARD in 2010. Many inefficient corrupt banks have been shut and the remaining is good enough to continue.

State cooperative banks across the country have deposits to the tune of Rs. 1,02859 crore as on 31 March 2015 as against Rs. 1,04369 crore as on 31 March 2014. They have a total loan outstanding of Rs. 1,14,545 Crore as on 31 March 2015 with an impressive loan recovery percentage almost 95 percent. On the profitability front too, the sector has done relatively well, of late. Of the total, 29 state cooperative banks posted total profit of Rs. 1,105 Crore during 2014-15 as against Rs 926 crore by 27 state cooperative banks during 2013-14. Their NPAs stood at 5.02 percent of their total loans and advances outstanding as on 31 March 2015 as compared to 5.53 percent as on 31 March 2014.

In absolute terms, their NPAs stood at Rs. 5,746 crores during 2014-15 as against Rs. 5699 crores during 2013-14. Also, these banks' accumulated losses decreased to Rs. 617 crores as on 31 March 2015 from Rs.696 crores as on 31 March 2014.

Similarly, primary agriculture credit societies (PACS) too have an impressive record of deposit-lending operations, at least in recent years. Total members of PACS as on 31 March 2014 aggregated Rs. 13.01 crore of which, borrowing members at 4.81 crore constituted around 39 percent. On the deposit side, these banks mobilized Rs. 81,895 crores as on 31 March 2014, indicating a growth rate of 34 percent over the previous year. Currently, all these banks are under stress on account of severe cash crunch and most of them are not functioning. As mentioned earlier, following restrictions, there has been hardly any business in cooperative banks across the country.

The whole confusion will take away the trust of common man from cooperative banks. Customers will think twice again before depositing their hard-earned money or taking a loan against their property from a local cooperative bank. Besides giving a major shock to the cooperative banking sector, the PM will also risk the wrath of millions of common people - customers, who have deposited money in these banks.

Impact of Demonetization on Cooperative Banking System

A number of features of Indian economy have made it particularly vulnerable to the poorly planned demonetization exercise.

First, cash transactions are predominant in the economy.

Secondly the volume of rural credit in India is mainly for short term credit (one year) for production of Kharif and Rabi crops and vegetables and medium term credit (three to five years) for allied sectors such as wells, pump sets, dairy, poultry, horticulture, plantation, etc. A

small portion goes to non-agricultural sector such as artisans and tiny business/services. Millions people of India are dependent on incomes gained in the traditional sectors of fisheries, coir, handlooms, and cashew processing as well as in crop and plantation agriculture. More than two and a half million migrant workers work as wage laborers in the Country.

Thirdly, the three-tiered cooperative banking structure, with PACS at the bottom of the pyramid, constitutes an overwhelmingly large part of the financial structure.

Fourthly, outside the financial structure, India has a cooperative sector that is an important component of manufacturing and services activity, since manufacturers and service organizations banks substantially with the cooperative banking sector.

Fifthly, earnings from tourism constitute an important share of India's income. Lack of access to cash deals a blow to tourism.

Sixthly, remittances play an important part in Indian economy, and the economic constraints caused by the present policy can cause disruption in the flow of remittances. These features, inter alia, contributed to the intensity of the impact of the demonetization on the Indian economy and its people.

Total rural credit disbursed by Commercial Banks (CBs), Regional Rural Banks (RRBs) and State/District Central Co-op Banks (SCBs/DCCBs) together in 2014-15 is about Rs. 845329 crores in 854 lakh accounts of which Rs. 346666 crore goes to small and marginal (poor) farmers in 486 lakh accounts. The number of total accounts at 854 lakhs is a low number against rural population in crores. Money lenders and traders still play a big role in providing informal production credit plus consumption credit to rural people at high interest rates. 518 lakh Kishan Credit Cards have been issued by all these credit agencies to farmers with average limit of one lakh rupees which can be used for both agricultural and consumption needs. Outstanding loans against such credit cards are reported to be Rs. 196781 crores as of March 2015. The major chunk of credit goes to Kharif and Rabi operations every year.

The share of Co-operative banks:

The share in rural credit of SCBs and DCCBs which have not been allowed to accept and exchange old Rs.500 and Rs.1000 notes by RBI unlike Urban Co-op Banks (UCBs) which are mainly located in urban and semi urban areas and has a very limited role in rural credit.

All SCBs and DCCBs are subject to statutory annual and bi-annual inspections under Banking Regulation Act, 1949. They are also subject to banking license, liquidity (cash reserve

and statutory deposit) ratios maintenance with RBI and deposit insurance norms. It is therefore; wrong to say that they avoid KYC norms in maintaining deposit and loan accounts. However, they are exempt from income-tax on their profits which are very low in view of loans being given to farmers at lower rate (8 % for crop loans). On the other hand, to attract deposits, they pay higher rate of interest (by 0.5 - 1 %) on deposits compared to other banks, making their profit margin from thin to thinner.

Almost all SCBs have Scheduled Banks' status under the RBI Act, 1935. The SCBs are responsible for the DCCBs' operations. In 19 states, 371 member DCCBs with 14060 branches are extending rural credit to the farmers on behalf of the SCBs (3-Tier system) and in 12 states and UT, the SCBs does it directly through its 1131 branches (2-Tier system).

The borrowing members are 92789 primary agricultural and non-agricultural credit societies of the farmers/artisans and also 31 lakh individual farmers/artisans whose societies are ineligible to borrow from the DCCBs or the SCBs due to high overdue percentage. The societies are members of either the DCCB branches in three-tier system or the SCB branches in two-tier system. During 2014-15, rural credit of Rs. 340392 crores were disbursed by the SCBs/the DCCBs to the farmers and artisans through such co-op societies and also to individuals. Their total deposits are Rs. 4,36,523 crores.

The overdue as on March 2015 was 22% in DCCBs and 5 % at the SCB level. Thus, rural people are more honest in repaying their dues. In the event of famine, drought or scarcity, such short term loans are rescheduled payable over 3-5 years so that they do not turn ineligible for next year's crop seasons. There are total 2.60 lakh employees in this 3-tier/ 2-tier system with 1.64 lakh at village level, 0.83 lakh at DCCB level and 0.13 lakh at the SCB level. (Source: National Federation of Co-op. Banks)

RBI data says 370 DCCBs held deposits of Rs. 236,890 crores as of 2014 while PACS had Rs. 81,900 crore deposits. Operations at 370 district central cooperative banks (DCCBs) and over 93,000 Primary Agricultural Credit Societies (PACS) have been severely hit with the Reserve Bank of India (RBI) slapping restrictions following the demonetization of Rs.500 and Rs. 1,000 notes. Urban cooperative banks (UCBs) too have complained to the RBI that commercial banks are refusing to provide them currency support, affecting their operations.

The RBI has not given any reason for the curbs on DCCBs and PACS - these are considered the lifeline of the rural economy, especially for farmers in states like Maharashtra,

Kerala, Uttar Pradesh, Gujarat, Tamil Nadu and Karnataka — but banking sources said it could be related to lax KYC (know your customer) norms and money laundering in some cooperative banks. RBI data says 370 DCCBs held deposits of Rs. 236,890 crores as of 2014 while PACS had Rs. 81,900 crore deposits.

Cash deposits in 285 district cooperative banks (DCBs) across India surged six fold in the first four working days after the recall of high-value currency on November 8, as compared to reserves a day before the announcement. An analysis of classified bank transaction data revealed DCBs deposited Rs. 3,051.2 crore with public sector banks between November 8 - when Rs.500 and Rs.1,000 were withdrawn - and November 14, when the Reserve Bank of India (RBI) banned the institutions from accepting cash. This is six times the Rs.496.88 crore reserves in the DCBs on November 7. All cooperative banks maintain a current account with a public sector bank, where they have to hold their cash deposits.

Demonetization: Retaining Credibility of Co-operative Banks

With move to demonetize Rs. 500 and Rs.1000 notes by the central government had a strange fall out when Cooperative Banks which are the backbone of the rural economy, have been paralyzed with the ban of accepting the old currency that are no long legal tender now. Operations at 370 district central cooperative banks (DCCBs) and over 93,000 primary agricultural credit societies (PACS) have been severely hit with the Reserve Bank of India (RBI) slapping restrictions following the demonetization of Rs. 500 and Rs. 1,000 notes.

In a direction to the banks, RBI says that they have advised the Urban Cooperative Banks through its Regional Offices and the State Cooperative Banks through National Bank for Agricultural and Rural Development (NABARD) of the need to ensure strict compliance with the instructions issued with regard to exchange of specified bank notes as also deposit of such notes into the accounts of their customers. But there were reports that some cooperative banks were not strictly adhering to the instructions issued in connection with the withdrawal of legal tender status of the existing Rs. 500 and Rs. 1000 bank notes (specified bank notes).

The government must allow Cooperative Banks to function or farmers which have been their source of funds for decades and have suddenly become invalid. The discrimination towards the Cooperative Banks will put the credibility of the banks at stake. The RBI and the Central Government should have taken this into consideration before meting out discriminatory treatment. The whole chaos will take away the trust of common man from cooperative banks.

Customers will think twice again before depositing their hard-earned money or taking a loan against their property from a local cooperative bank. Due to uncertainty, the people will now be scared to park their money in future in these banks due to uncertainty as their credibility has also taken a hit. The current crisis could take the shape of a permanent mutilation if cash crunch continues for a few months and it will take a long time for them to recover. Instead, the government should have tried to strengthen the infrastructure and capabilities of these banks instead of bringing them on the verge of collapse.

Conclusion:

Demonetization is a huge loss to the economy. There is over 1,25,000 crore frozen in cooperative banks. Due to this there has been so much of agitation in the Country. People have so much faith in the system that they are even now depositing the money with their cooperative banks. There is no precedent anywhere in the world about demonetization. The government is just not bothered. People are suffering, many are dying, but the government has turned a blind eye to everyone.



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Demonetization and its Impact on Indian Banking System

Ramesh Jadhav⁸² and Basavaraj⁸³

Abstract

Every one aware about the demonetized policy of the government by banking Rs.500 & Rs 1000 currency notes. Indian government has taken a bold decision on note ban on 08/11/2016. Central government was a judicious, well-thought out and well-implemented step, and whether it would really eradicate all the existing black money. Many industries are going to be benefitted due to the demonetized policy and many are going suffer. But overall the overall the demand is going to or rather has already reduced by 30%-40% due to lack of money with the consumers. As the demand goes down, the profit of the quarter ending December 16 is going to fall. The demand will catch the momentum as the dust settle down. The economy will stabilised as soon as there is enough new currency in hands of people. Yes, the biggest beneficiary from this policy will be banking sector. The reason behind being called the beneficiary is very obvious because as lot of people are depositing cash in the banks, there will be a lot of liquidity with the banks. As the deposit with the banks will increase so will increase CASH, which will increase the Net Interest Income and Net Earnings of the banks. This study will help us to know about the positive and negative impact of note ban decision taken by Indian government. This study is purely based on secondary data, which is collected from news papers, magazines, websites from internet, some useful books related to topic etc.

Keywords: - Indian government, banks, black money, Demonetization, Liquidity.

Introduction

The Indian government's decision to demonetize currency notes of Rs500 and Rs 1,000 was necessitated by the increase in difficult-to-tell counterfeit notes and a desire to curb black income generation as well as eliminating a part of existing unaccounted wealth held in these

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high-denomination notes. The authorities' intent and action are indeed praiseworthy but need to be followed up with subsequent actions to remain effective. These actions relate mainly to structural changes to make the system more rules-based—reduce the discretionary powers of the bureaucracy, make the tax system simple, transparent and less discretionary, make a greater effort to include the informal sector and ensure effective and quick dispensation of justice. Meanwhile, the impact on the economy will most certainly be negative and could reduce potential gross domestic product (GDP) in the medium term and consequently government revenue. The government, by announcing a tax amnesty scheme before demonetization, has sent a strong signal to tax evaders to declare their incomes in future and avoid evading taxes. This would help enhance the tax base going forward and help reduce the fiscal deficit. However, at the same time, revenue growth is likely to be negatively affected as a result of slower growth.

In the short term, there will be an increase in bank deposits as individuals deposit their high-denomination notes, bringing down yields. This may, however, not sustain as people may have a desire to hold and move back to cash in the new high-denomination notes that will become available over time

Conceptual Framework

The term demonetization has become a household name since the government pulled the old Rs 500 and Rs 1,000 notes out of circulation. While as per dictionary demonetization means "ending something (e.g. gold or silver) that is no longer the legal tender of a country", one needs to see if there is anything more to the word. Demonetization for us means that Reserve Bank of India has withdrawn the old Rs 500 and Rs 1000 notes as a official mode of payment. The **demonetization** of Rs.500 and Rs.1,000 banknotes was a policy enacted by the Government of India on 8 November 2016, ceasing the usage of all Rs.500 (US\$7.40) and Rs.1,000 (US\$15) banknotes of the Mahatma Gandhi Series as legal tender in India from 9 November 2016. This is usually done whenever there is a change of national currency, replacing the old unit with a new one. Such a step, for example, was taken when the European Monetary Union nations decided to adopt Euro as their currency. However, the old currencies were allowed to convert into Euros for a period of time in order to ensure a smooth transition through demonetization. Zimbabwe, Fiji, Singapore and Philippines were other countries to have opted for currency demonetization. In India's case, the move has been taken to curb the

menace of black money and fake notes by reducing the amount of cash available in the system. It is also interesting to note that this was not the first time the Government of India has gone for the demonetization of high-value currency. It was first implemented in 1946 when the Reserve Bank of India demonetized the then circulated Rs 1,000 and Rs 10,000 notes. The government then introduced higher denomination banknotes in Rs 1000, Rs 5000 and Rs 10000 in a fresh avatar eight years later in 1954 before the Morarji Desai government demonetized these notes in 1978. On November 8 evening, Prime Minister Modi, in his televised address to the nation, made Rs 500 and Rs 1000 notes invalid, saying that it was aimed at curbing the “disease” of corruption and black money which have taken deep root. People holding notes of Rs 500 and Rs 1,000 can deposit the same in their bank and post office accounts from November 10 till December 30. All notes in lower denomination of Rs 100, Rs 50, Rs 20, Rs 10, Rs 5, Rs 2 and Re 1 and all coins continued to be valid, and new notes of Rs 2,000 and Rs 500 were introduced. There was no change in any other form of currency exchange be it cheque, DD, payment via credit or debit cards etc. The government’s move to demonetize, even then, was to tackle the issue of black money economy, which was quite substantial at that point of time. In January 1978, the Indian government demonetized Rs 1,000, Rs 5,000 and Rs 10,000 notes which was quite substantial at that point of time. The move was enacted under the High Denomination Bank Note (Demonetization) Act, 1978. Under the law all “high denomination bank notes” ceased to be legal tender after January 16, 1978.

Objectives of the study

The main objective of this paper is to study the impact of demonetization (8th Nov.2016).

Research Methodology

The paper is based on the secondary data. Secondary data is collected from library, text books, and journals, articles from news papers and from relevant websites available on internet

Impact of Demonetization on Banking

The biggest beneficiary from Demonetization will be the Banking Sector. The government’s decision on November 8 to immediately demonetize the Rs 500 and Rs 1,000 notes in circulation, which account for 86% of all currency in circulation, has impacted a raft of sectors. Consumers have turned frugal, causing a sharp drop in demand for goods and services. While farmers and small industries will bear the brunt and sectors like transport and

real estate will visibly be in pain, several other industrial sectors will have to scale back services or production.

Positive Impact: Increase in CASA deposits for most banks; lending rates to drop further

The biggest beneficiary from this policy will be the banking sector. This is mainly due to the queues of people depositing cash in the banks – which will result in substantial liquidity with the banks. As the deposits with the banks will increase so will increase the CASA, which will increase the Net Interest Income and the Net earnings of the banks. However, this will not be abnormally high since the RBI has increased the CRR in the short term to mop up some of this liquidity. As stated above higher CASA means large amount of deposits are in current and savings account. This way the banks get funds at no or very low cost (interest). Banks do not pay interest on the current account deposits and pay a very low % of interest on savings account deposits. Hence, it is a good measure to get deposits at no or very low cost. As the banks get a lot of liquidity in their hands, they are expected to enhance the borrowing cycle by lending the money at a lower rate of interest. Hence, the interest rate on borrowing will lower down.

Negative Impact: MFIs, NBFCs miss collection cycles

NBFCs and microfinance institutions (MFIs) are under severe stress as their collection cycles (mostly in cash) have gone awry post November 8. Most NBFCs and MFIs have announced ‘collection holidays’ till such time there’s sufficient money in the system.

The government’s demonetization drive may puncture the earnings of most banks this quarter. With most staffers handling the Rs 500 and Rs 1000 note deposits, exchange and withdrawals, “revenue-yielding” operations such as vending loans and cross-selling investment products have taken a backseat in most banks. The earnings of banks may take a hit in the third and fourth quarter. We may not see loan book growth as most banks are busy facilitating the demonetization process. They’re not aggressively selling a lot of credit products now. That apart, the SME and real estate sectors, to which most banks lend a significant part of their book – are in a state of major flux.

Temporary measures to mop up liquidity:

The Reserve Bank of India or RBI has announced incremental CRR (cash reserve ratio) of 100% on the growth in bank deposits between 16 September 2016 and 11 November 2016.

The entire incremental deposits (~Rs3.2 Tn) in the prescribed period have to be parked with the RBI as CRR. No interest will be paid on CRR, while banks will have to shell out ~4% interest on the funds received in savings deposits. Not only the expected positive carry on incremental deposits has been wiped out, but there will also be a negative carry on such deposits. The higher CRR is a temporary measure to drain liquidity in the banking system and will be reviewed in the fortnight ending 9 December 2016 or even earlier. This is a temporary measure to suck out excess liquidity in the banking system after the announcement of demonetization by the government as banks were parking bulk of the receipts through reverse repo window. Given the RBI's limited capacity to accept funds under reverse repo and related interest outflow on the same, the central bank announced parking of incremental deposits under CRR which entails no interest outflow.

Conclusion

Demonetization is a tool used by central government to fight against corruption and black money. In the same path, it influenced and brought changes in all the corner of the economy. The impact of the demonetization measures would certainly be slower economic growth. As most real-estate transactions entail an element of cash, this market is likely to come to a standstill with property prices likely to fall. This would imply a negative-wealth effect leading to a decline in consumption, and possibly business investment. Although Demonetization has create so many hurdles for the citizens of India. Citizens of India faced so many problems due to the demonetization drive; they faced queue problems in the banks and ATM'S for depositing and withdrawing money.

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Demonitisation and Indian Banking Sector

Sherly Shubha J M⁸⁴ and N Vanitha⁸⁵

Abstract:

Demonetization is a radical monetary step in which a currency unit's status as a legal tender is declared invalid. This is usually done whenever there is a change of national currency. In 2016, the Indian government decided to demonetize the 500- and 1000- rupee notes, the two biggest denomination notes. These notes accounted for 86% of the country's cash supply. The government's goal was to eradicate counterfeit currency, fight tax evasion, eliminate black money gotten from money laundering and terrorist financing activities, and promote a cashless economy. This paper contains the concept of demonetization, past history, Indian banking system and impact of demonetization on Indian banking sector.

Introduction

Demonetization is a radical monetary step in which a currency unit's status as a legal tender is declared invalid. This is usually done whenever there is a change of national currency, replacing the old unit with a new one. Such a step, for example, was taken when the European Monetary Union nations decided to adopt Euro as their currency. However, the old currencies were allowed to convert into Euros for a period of time in order to ensure a smooth transition through demonetization. Zimbabwe, Fiji, Singapore and Philippines were other countries to have opted for currency demonetization.

In 2016, the Indian government decided to demonetize the 500- and 1000- rupee notes, the two biggest denomination notes. These notes accounted for 86% of the country's cash supply. The government's goal was to eradicate counterfeit currency, fight tax evasion, eliminate black money gotten from money laundering and terrorist financing activities, and promote a cashless economy. By making the larger denomination notes worthless, individuals and entities with huge sums of black money gotten from parallel cash systems were forced to convert the money at a bank which is by law required to acquire tax information from the entity.

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If the entity could not provide proof of making any tax payments on the cash, a tax penalty of 200% of the tax owed was imposed.

Concept of Demonetisation:

Demonetization is the act of stripping a currency unit of its status as legal tender. **Demonetization** is the process in which a particular currency or valuable mineral is degraded as a legal tender. This happens when a certain currency is no longer in regular use within the country of origin, or when a newer currency comes into circulation.

Background of the Paper:

On November 8, 2016, the government announced a historic measure, with profound implications for the economy. The two largest denomination notes, Rs 500 and Rs 1000, were “demonetized” with immediate effect, ceasing to be legal tender except for a few specified purposes. The move is aimed at controlling black money, fake currency circulation and terror financing India has amongst the highest levels of currency in circulation at 13% of GDP. Notes in circulation as of Nov 4, 2016: Rs. 17,742 bn (13% of GDP). { Value of Rs.500/Rs.1000 notes in circulation (86.5% of notes in circulation): Rs. 15,347 bn (11% of GDP)

Literature Review:

The paper is based on secondary data. The data has been collected from various books, journals, E-journals and E-sources.

Objectives of Paper

- To study the experience of impact of demonetization in various countries in past years;
- To analyze the immediate impact of demonetization on Indian economy;
- To workout the probable consequences of the demonetization.
- To study the impact of demonetization on banking sector.

India's Past Experience with Demonetization:

The French were the first to use the word Demonetize, in the years between 1850 -1855. Since then many countries have used the word and the policy with immense restriction and discomfort, for it disrupts economics and population at large.

India has demonetized before: First time on 12 Jan 1946 (Saturday), second time on 16 Jan 1978 (Monday), Third time on 8th November 2016 (Tuesday).

- ✓ In the first time, the measure did not succeed, as by the end of 1947, out of a total issue of Rs. 143.97 crores of the high denomination notes, notes of the value of Rs. 134.9 crores

were exchanged. Thus, notes worth only Rs. 9.07 crores were probably ‘demonetized’, not having been presented.

It was really not a revolutionary measure and even its purpose as a minatory and punitive gesture towards black-marketing was not effectively served. There was no fool-proof administrative method by which a particular note brought by an individual could be proved as the life-savings of the hard-working man who presented it or established as the sordid gains of a black-marketer. Another loophole of which considerable advantage was taken was the exemption of the princely States from scrutiny or questioning when such notes were presented by them. In the end, out of a total issue of Rs.143.97 crores, notes of the value of Rs.134.9 crores were exchanged up to the end of 1947 as mentioned in the Report of the Board of Directors of the Reserve Bank. Thus, notes worth only Rs.9.07 crores were probably “demonetized”, not having been presented. It was more of “conversion”, at varying rates of profits and losses than “demonetization”.

- ✓ In the second time, The Finance Minister H.M. Patel in his budget speech on 28 Feb 1978 remarked The demonetization of high denomination bank notes was a step primarily aimed at controlling illegal transactions. It is a part of a series of measures which Government has taken and is determined to take against anti-social elements. The FM did not say anything about the success of the exercise, one can almost guess that it did not create much impact like in 1946.
- ✓ In January 1946, banknotes of 1000 and 10000 rupee were withdrawn and new notes of 1000, 5000 and 10000 rupee were introduced in 1954.
- ✓ The Janata Party coalition government had again demonetized banknotes of 1000, 5000 and 10000 rupee on 16 January 1978 as a means to curb counterfeit money and black money.

In 2012, the Central Board of Direct Taxes had recommended against demonetization, saying in a report that "demonetization may not be a solution for tackling black money or economy, which is largely held in the form of Benami properties, bullion and jewelry".

The Impact of the Past Demonetization:

- ✓ Deposit growth → rose sharply

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- ✓ Currency in circulation → moderately sharply
 - ✓ SLR security → sharp increase in investment in government securities by banks
 - ✓ Credit growth → initially subdued but started picking up after 4 months (by May 1978)
 - ✓ GDP growth → no major impact as high denomination notes which were Cancelled Only accounted for 0.1%

Demonetization and its Implication on Indian Economy:

The demonetization drive initiated by the Indian Government is going to have far reaching Impact on the Indian Economy. It is being considered as one of the most significant step in tackling the black money issue that has gripped our country since many years.

Some of the effects of the demonetization measure are:

- a) The total currency in circulation as on Oct 28, 2016 was INR 17.54 lakh crores. According to the Reserve Bank of India (RBI), 86% of this component is in currency notes of INR 500 and INR 1000 denomination. Therefore, the currency that is being attempted to be demonetized is around Rs. 15 lakh crores. It is being estimated (internal estimates) that around 20% of this currency is in black. We believe that this money either will not come back into the system for exchange for new notes or will be surrendered as black money and taxes thereon will be paid.
- b) The deposit of these notes with the Commercial Banks ends on December 30th, 2016. Thereafter, currency notes will have to be deposited with RBI till Mar 31st, 2017. We believe that after this date, the RBI will reduce Notes in Circulation to the extent of the money not deposited. To match its liability, it will have to reduce its asset or increase its liability. Increasing its liability would mean increase in its Net Non-

Monetary Liabilities (or reserves) and declare special dividend (just an accounting entry) to the Government. The Government, in turn can reduce its bonds on the RBI's balance sheet by buying its bonds back from the reserves transferred by the RBI. The government will have multiple options about what it could do with this special dividend. It may reduce domestic outstanding debt, prepay external debt, reduce fiscal deficit as interest cost drops, and reduce its borrowing for following years. Improvement in debt/Gross Domestic Product (GDP)

ratio should also help improve the country's sovereign rating by the International Agencies. RBI's balance sheet also frees up for supporting liquidity requirements of the banking system.

- c) On the other hand, the banking sector is going to see a surge of liquidity as deposits get collected. Based on our assumption (internal estimates) that (20% of currency will not be tendered back), there is going to be tendering of currency from the public to the tune of Rs. 12 lakh crores (80% of Rs. 15 lakh crores). Due to the temporary restrictions on withdrawing cash, our internal estimate is that at least 50% of the cash will remain within the banking system, i.e. of Rs. 6 lakh crores. This sudden surge in deposit of 6% of current aggregate deposits will help in improvement of liquidity. This will lead to demand for fixed income securities, particularly government securities.
- d) According to a World Bank estimate in 2007, around 20-25 % of India's GDP is the size of the parallel black economy. The steps taken by the Indian Government has led to a scare in the parallel black economy and should lead to better tax compliance going ahead. This will have a telling effect on the other heavens of black money i.e. real estate and gold. Both these sectors are going to witness reduced demand. Lower Demand for gold resulting ultimately in lower import of gold is expected to improve the current account balances. The Indian rupee should remain stable and display appreciating bias against hard currencies, as the current account improves and may also move into surplus.
- e) The sudden change due to reduced cash transaction will lead to reduction in economic activity. We believe that the services sector growth will be majorly affected. This will lead to lowering of inflation expectation and moderation of headline inflation too. However, the effect on inflation would depend on the moderation in economic activity in those sectors that have heavy cash transactions. RBI will find larger room to reduce repo rates with moderation in inflation.
- f) There are some other positives expected over the medium to long term. A more compliant economy should increase tax collections and tax to GDP ratio should improve from both direct and indirect tax. In future, an increase in use of plastic money rather than hard currency would also lead to higher money multiplier which will be more productive. To sum up, the fight against corruption, terror funding, counterfeit currency and the Black economy should result in:
- Increased systemic liquidity leading to higher demand for bonds

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- Rate reductions due to lower inflation and inflationary expectations
 - Stable to appreciating INR as Current account deficit improves due to lower Demand for gold
 - Higher tax to GDP
 - RBI freeing up balance sheet as liability declines
 - Government would be able to bring down its outstanding debt liability and Improve fiscal deficit
 - Immediate near term impact – decline in cash transactions may lead to Reduction in consumption demand leading to some decline in the GDP growth

Impact of Demonetization on Banking Sector:

Indian banking sector an overview: The Indian banking sector consists of 26 public sector banks, 25 private sector banks, 43 foreign banks, 56 regional rural banks, 1589 urban cooperative banks and 93550 rural cooperative banks, in addition to cooperative credit institution. Indian banking industry has recently witnessed the roll out of innovative banking models like payments and small finance banks.

As directed by the Government, the 500 and 1000 Rupee notes which now cease to be legal tender are to be deposited or exchanged in banks (subject to certain limits). This will automatically lead to more amounts being deposited in Savings and Current Account of commercial banks. This in turn will enhance the liquidity position of the banks, which can be utilized further for lending purposes. However, to the extent that households have held on to these funds for emergency purposes, there would be withdrawals at the second stage.

With demonization, more people are depositing money into the banks. This means the banks have more liquid funds and more money to lend. Many banks have also slashed their deposit rates including SBI, ICICI Bank, HDFC Bank.

- Canara Bank, ICICI Bank and HDFC Bank have cut their fixed deposit rates by up to 1%. State Bank of India cut their fixed deposit interest rates by 0.15% on select maturities.
- HDFC Bank and ICICI Bank have cut their deposit by up to 0.25%.
- United Bank of India has slashed their rates by 1% only on the short-term deposits.

In the banking world, when deposit rates are cut, it generally means the lending rates will also be slashed down. Since banks are paying lower deposit rates to customers, this allows them room to charge lesser on loans.

Positive Impact of Demonetization on Banking Sector:

- Increased share of savings moving to banks, high CASA ratio(lower cost of funds)
- Demonetization enhanced the liquidity position of the banks
- Lower bond yields resulting in high treasury gains
- Jan Dan Bank accounts are full, probably because people who did not want to keep their money in bank, are coming back to banking network, after demonetization. According to RBI 11.5 lakh crore money have been deposited in banks.
- The banks which were struggling because of the NPA (Non performing assest) problem , will now have a lot more money to lend for agriculture, infrastructure and social sector as also for trade and industry.
- Paradigm shift towards cashless economy.

Negative Impact of Demonetization on Banking Sector:

- Banks use third parties like cash logistics companies for cash transportation. Moving out Rs 15 lakh crore of currency notes and moving in Rs 7 lakh crore plus from currency chests would have cost several thousand crore.
- During November and December 2016 bank work was largely centered on accepting and exchanging specified bank notes. As a result other activities like lending during busy season is affected which will reduce their earnings for the next quarter and profitability.
- Further as all ATMs are to be recalibrated for issue of new denomination notes like Rs.2000 and Rs.500 it will add substantially to their operational expenses. It will reduce their income during the next quarter.
- Reduction in deposit interest rate due to high liquidity.
- With any sharp infusion deposits and relatively limited avenues to lend, the credit deposit ratio for banks would become unfavorable and thus impact margins.
- The bank officials have been putting in extra hours every day to try and conduct as many transactions as possible. People's perception of the whole situation seems to be limited to the chaos and queues outside the banks.

Conclusion

Banks have gained deposits substantially after demonetization which they can invest for improving their profitability. There non-performing advances have also come down.

Besides as banks will reduce their cash holdings due to more digital interface it will add to their long term profitability and cash loss for various reasons like theft, dacoity and misappropriation will be avoided. Thus demonetization is not an unmixed blessing but merits are more than demerits and the economy will move forward with less cash holdings by banks.

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Demonetization in India: An Experience of Indian Banking System

*Raghavendra L⁸⁶, Santhosh C M⁸⁷**Abstract*

Indian economy has seen the ambivalent effect of a strong decision that is 'Demonetization' taken by the PMI. He was primarily intended to fight black money holding and corruption. This decision effected all the monetary operations of the entire economy badly. In contrast, it had also benefited the country by declining unethical activities viz., funding terror, Maoist extremism, fake currency circulation, etc. However, the demonetization failed in achieving its primary objective since, demonetization did not expect 99% currency could return into the banking system. On the other hand, it also benefited through defusing immoral and terror activities. It is a pain and gain of the Indian sovereign's strong decision. This study initially focused on representing the experiences of customers and bankers during the demonetization period. Thereafter, it is aimed to evaluate the results of demonetization with different parameters by comparing before and after demonetization era.

Keywords: *Demonetization, Experience, Banking Operation, RBI, Liquidity Management, PMJDY, Re-monetization (Rs.500 and Rs. 2,000).*

Introduction:

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A sudden action of demonetization taken on 8th Nov.2016 had stunned the general public, bank employees and the entire economic activities of the country. It had also broken the activities of funding terror, fake note circulation, Maoist extremism, unrest in Jammu and Kashmir and Hawala business etc... demonetization was initially intended to combat black money and corruption in the country. Later, it was expanded with other two objectives viz., a) expanding the tax base of the economy and b) making India **acashless economy**. Banks were houseful with their customers to deposit and exchange the demonetized currency against the new currency Rs.2000 and Rs.500 notes from 10 Nov.2016. We (the bankers) have faced a lot of challenges initially while receiving the demonetized money into their accounts and then making payments of new currency notes to a large crowd of customers with less number of staff, when compared. ATMs were running out of cash in the beginning days due to less cash supply by the RBI. It had taken almost 8-9 months to normalize the cash transactions in the banks.

Literature Review:

- **RBI (2017)** reported that until June 30 2017, estimated value of demonetized Specified Bank Notes (SBNs) returned to RBI is Rs.15.28 lakh crore.
- **PIB(2017)** stated that 98.96% of SBNs of demonetized currency have come back to the RBI so far. It implied that **Rs. 7,100 crores** of Rs.500 notes demonetization and Rs.1000 notes demonetization of value approximately **Rs. 8,900 crore**. In Toto, approximately **Rs. 16,050 crore** have not come back to RBI. Further, annual report at page 127 under Chapter VIII – ‘Counterfeit notes and Security Printing’ informs that during 2016-17 **76,207** pieces of counterfeit notes were detected”.
- **Ira Dugal (Aug 2017)** reported that “Rs.15.45 lakh crore of Rs.500 and Rs.1000 SBNs withdrawn from the economy. Approximately, 86% of total currency in circulation and expenditure on currency printing was approximately Rs.8000 crores”.
- **World Bank (Jan 2017)** mentioned that “a benefit of demonetization in the medium run may ease liquidity in the banking system, leading to lower lending rates and boost economic activities”.
- **Aljazeera News (Feb 2017)** quoted that “the central bank calls this a nation-wide exercise to estimate the density of fake Indian currency and verification of notes.”

Objectives of the Study:

The following are the major objectives specifies study requirement:

- To represent the experience borne by the customers and bank employees during post demonetization period;
- To evaluate the banking trends and operations during post demonetization period;
- To elucidate the outcome of demonetization by the government in achieving its set-out objective.

Research Methodology:

A) Sources of Data: In order to fulfill research objective, the researcher has been used both Primary and Secondary Data. With respect to Primary Data, the researcher used his Observation method (Participative) and Website of Reserve Bank of India and many other journals/ articles as Secondary Sources.

B) Tools and Techniques: To analyse and interpret the collected data, the researcher has been used Cross-sectioned Tables, Graphs for representation and Averages, Growth rate for interpret the data.

Experiences of Demonetisation

An abrupt crackdown over black money holding and eradication of corruption had leaded the general public into a panic condition to exchange their demonetized currency against new currency. It is the duty of the government to fight the black money holding and corruption and also it is the duty of the same government to protect the general public from unnecessary troubles in this process. All the surveys suggest that only 6% of black money is held in the form of cash and the rest of the black money is in the form of real estate, gold, jewelry, stock and in foreign accounts. It shows the government had committed a mistake in taking an appropriate decision to eliminate black money from the economy.

- **Customers' View:**

Customers were visiting the banks every day to withdraw their own deposits since RBI limited the public to withdraw at one time. Banks were running out of cash or with less cash in the initial days of demonetization which hurt the customers' routine economic activities, since, more than 90% of transactions were done with physical cash in this country. New notes were not fitting to ATMs because of the difference in their size, which made ATMs dysfunctional and customers had stopped their work and stood in queues 3-4 hours for mere withdrawal of

2-4 thousand rupees every day. Many daily wage workers lost their jobs, SMEs businesses were hurt badly, and laborers were not paid their salaries which led some of them to begging conditions. There were number of hurdles faced by the public which were impossible to count. Despite of all these sufferings, maximum number of the general public supported the PMI move for achieving a good purpose.

- **Bankers' Experience:**

The bank employees were put in high pressure after demonetization to work for exchanging large amount of demonetized currency with big crowd of customers everyday till late nights, even on second Saturday, Sunday, public holidays banks remain opened. Some days have gone without tallying cash, despite of working till 12 to 1am (the writer experienced). The bank cashiers paid the price for accepting the unnoticed fake currency while counting cash in high pressure. The writer himself (former bank cashier) paid Rs.3000 for the same. Maximum banks stopped lending loans nearly 4-6 months.

Banking Trends and Operations During Post Demonetization Period:

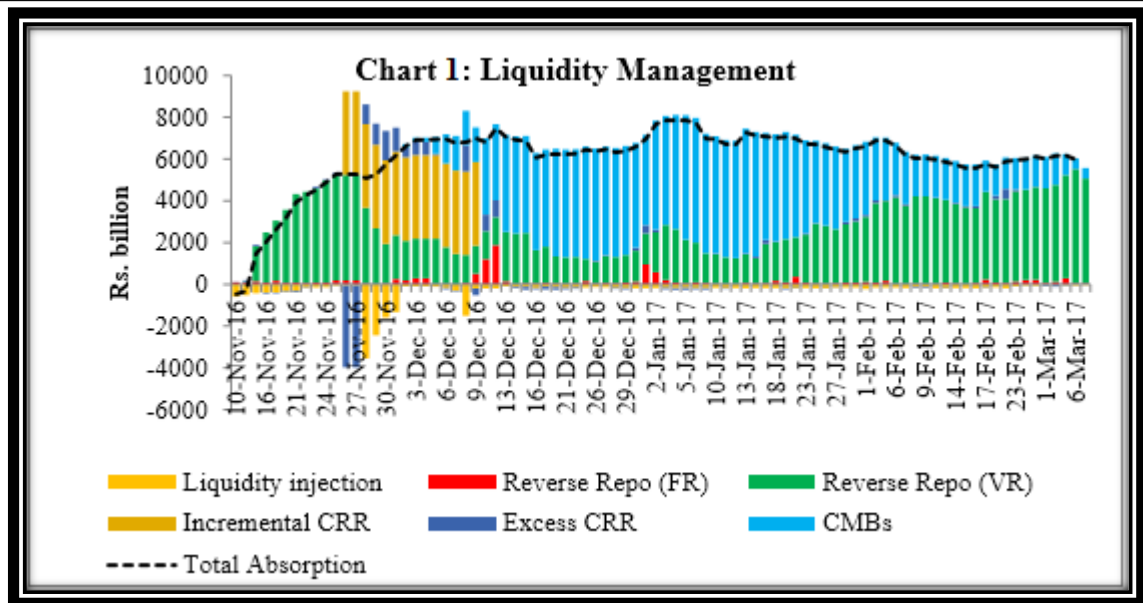
A) Liquidity Conditions:

With the return of Specified Bank Notes (SBNs) to the banking system, while currency in circulation contracted, deposits in the banking system surged. The sudden increase in deposits (given the gradual replacement of SBNs by new notes) created large surplus liquidity conditions in the banking system, which could be divided into four distinct phases in terms of how liquidity was managed by the Reserve Bank using different instruments (Chart 1). The active liquidity management was necessitated to ensure that the operating target remained aligned to the policy repo rate.

- In the **first phase (November 10 to November 25)**: the Reserve Bank absorbed the excess liquidity through variable rate reverse repos of tenors ranging from overnight to 91 days under its Liquidity Adjustment Facility (LAF). The outstanding amount of surplus liquidity absorbed through reverse repos (both variable rate and fixed rate auctions) reached a peak of Rs. 5,242 billion on November 25.
- In the **second phase (November 26 to December 9)**: the liquidity surplus was managed through a mix of reverse repos and the application of the incremental cash reserve ratio (ICRR) of 100 per cent on the increase in net demand and time liabilities between September 16 and November 11, 2016. The ICRR helped drain excess liquidity in the

system to the extent of about Rs. 4,000 billion during the fortnight ended December 9, 2016.

- In the **third phase (December 10 to January 13)**, surplus liquidity conditions were managed through a mix of Reverse Repos and issuances of Cash Management Bills (CMBs) under the Market Stabilization Scheme (MSS). With the enhancement of the limit on issuance of securities under the MSS from Rs. 300 billion to Rs. 6,000 billion on December 2, 2016 by the Government of India, the Reserve Bank withdrew the ICRR effective the fortnight beginning December 10, 2016. Between December 10, 2016 and January 13, 2017, surplus liquidity in the system was managed by a mix of fine-tuning reverse repo operations and auctions under the MSS. The peak liquidity absorbed was Rs. 7,956 billion on January 4, 2017 (Rs. 2,568 billion absorbed through reverse repos and Rs. 5,466 billion through Cash Management Bills). Subsequent to the advance tax payment in mid-December, a part of the excess liquidity was offset by the build-up in government cash balances. The surplus liquidity in the system declined to Rs. 7,269 billion on January 13, 2017.
- In the **fourth phase (since January 14)**, the Reserve Bank has increasingly used reverse repo operations to absorb surplus liquidity, particularly the liquidity released through the maturing Cash Management Bills (CMBs), as the magnitude of surplus liquidity has been moderating in sync with remonetisation. Of the total surplus liquidity (net of injection under the LAF) in the system of Rs. 5,537 billion on March 7, 2017, Rs. 500 billion was absorbed through CMBs under the MSS and the remaining through variable rate reverse repo auctions under the LAF. The surplus liquidity is expected to decline going forward as remonetisation progresses further, which will result in decline in deposits with the banking system. Despite this, however, surplus liquidity conditions are likely to persist for some more time.



FR: Fixed Rate; VR: Variable Rate; CRR: Cash Reserve Ratio; CMB: Cash Management Bill.

Source: Reserve Bank of India website

B) Monetary Policy Transmission to Lending Rates

Surplus liquidity conditions have helped facilitate the transmission of monetary policy to market interest rates. Post demonetisation, several banks lowered their domestic term deposit rates and lending rates. The median term deposit rates of SCBs declined by 38 bps during November 2016-February 2017 (Table 1), while the weighted average term deposit rate of banks declined by 24 bps (up to January 2017). Combined with the sharp increase in low cost CASA deposits, the overall cost of borrowings declined, allowing banks to reduce their lending rates. The weighted average lending rate (WALR) of banks in respect of fresh rupee loans declined by 56 bps during November 2016-January 2017. During January 2017, 25 public sector banks reduced their 1-year MCLR in the range of 15 to 90 bps, while 17 private sector banks reduced it in the range of 10 to 148 bps. The 1-year median MCLR of SCBs declined by 55 bps during January 2017. During February 2017, six public sector banks lowered their 1-year MCLR in the range of 15 to 65 bps, while six private sector banks reduced in the range of 10 to 50 bps. During March 1-7, 2017, two private sector banks reduced their 1-year MCLR in the range of 5 bps and 20 bps.

The 1-year median MCLR has declined by a cumulative 70 bps since November 2016 even when the policy repo rate was not changed. This is significant, considering that the 1-year median MCLR declined by only 15 bps during the preceding seven months (April-October 2016) when the policy repo rate was reduced by 50 bps. The WALR on outstanding rupee loans declined by 8 bps during November 2016-January 2017 as against the decline of 11 bps during the preceding seven months (April - October 2016).

Table 1: Monetary Transmission:

Reduction in Deposit and Lending Rates – Post-demonetisation(Up to March 7, 2017)

Bank Group	MCLR* (Median)	Term Deposit Rates (Median)		
		Up to 1 year	1 to 3 years	All Tenors
	1 year			
Public Sector Banks	85	26	35	28
Private Sector Banks	65	50	48	50
Foreign Banks	40	8	34	6
Scheduled Commercial Banks	70	31	40	38

* MCLR = Marginal Cost of Funds based Lending Rate. **Source:** Reserve Bank of India Website

C) Pradhan Mantri Jan Dhan Yojana (PMJDY)Accounts

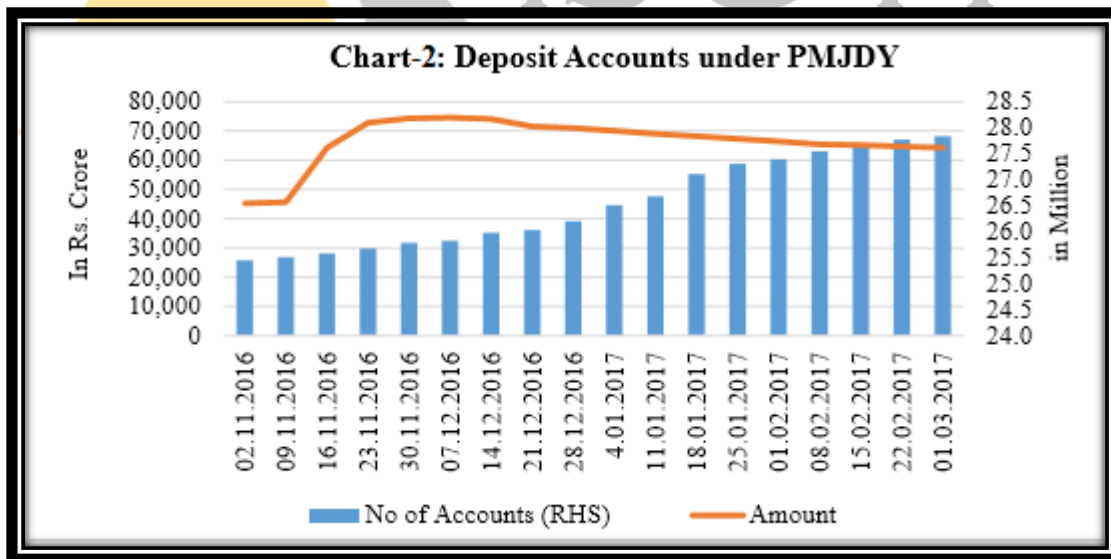
Post-demonetisation, 23.3 million new accounts were opened under the *PradhanMantri Jan Dhan Yojana* (PMJDY), bulk of which (80 per cent) were with public sectorbanks (Table 2) of the new *Jan Dhan* accounts opened, 53.6 per cent were in urban areas and 46.4 per cent in rural areas.

Deposits under PMJDY accounts increased significantly during post demonetisation. The total balance in PMJDY deposit accounts peaked at Rs. 746 billion as on December 7, 2016 from Rs. 456 billion as on November 9, 2016 - an increase of 63.6 per cent (Chart 2). As there were reports regarding the use of these accounts to convert black money into white, the Government issued a warning against the misuse of such accounts.

Table 2: Deposits under PMJDY: Number of Accounts(Rs. in million)

Bank-Group	As on November 9, 2016			As on March 1, 2017			Variation (March 1, 2017 over November 9, 2016)		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
Public Sector Banks	114.3	89.3	203.6	122.1	100.8	222.9	7.8	11.5	19.3
							6.8%	12.9%	9.5%
Regional Rural Banks	37.1	6	43.1	40	6.4	46.4	2.9	0.4	3.3
							7.8%	6.8%	7.7%
Private Sector Banks	5.3	3.1	8.4	5.4	3.6	9	0.1	0.5	0.6
							1.3%	16.8%	7%
Scheduled Commercial Banks	156.7	98.4	255.1	167.5	110.9	278.4	10.8	12.5	23.3
							6.9%	12.7%	9.1%

Source: Pradhan Mantri Jan Dhan Yojana website.



Source: Pradhan Mantri Jan Dhan Yojana website

The Government also capped deposits into PMJDY accounts at Rs. 50,000 on November 15, 2016. Although deposits declined to Rs. 643 billion as on March 1, 2017, they were still

higher by 41 per cent over the level of November 9, 2016. *Jan Dhan* accounts contributed 4.6 per cent in total accretion of aggregate deposits of SCBs in the post-demonetisation period (Table 3).

Table 3: Deposits Under PMJDY: Amount Mobilised(Rs. in billion)

Bank Group	As on November 9, 2016	As on March 1, 2017	Variation (Col. 3 over Col. 2)	Variation in aggregate deposits of scheduled commercial banks (February 17, 2017 over November 11, 2016)	Accretion in PMJDY deposits as percentage of accretion in Aggregate deposits#
1	2	3	4	5	6
Public Sector Banks	364	502.5	138.5	2733	5.1
			38%	3.9%	
Regional Rural Banks	76.3	118.1	41.8	616	6.8
			55%	18%	
Private Sector Banks	16	22.3	6.3	778	0.8
			39%	3.5%	
Scheduled Commercial Banks	456.4	642.9	186.5	4098	4.6
			41%	4.1%	

#: The ratio pertains to *Jan Dhan* deposits as on February 15, 2017, as data on aggregate deposits of SCBs as on March 3, 2017 are not available yet. **Source:** Pradhan Mantri Jan Dhan Yojana website.

Outcome of Demonetization in India

When we look at the figures reported by the RBI in its annual report 2016-17, we get a prima facie evidence that out of 15.45 lakh crore demonetized currency, the RBI had received 15.28 lakh crore. It is almost 99% of total demonetized currency has returned to the RBI. It is very clear summary of failure of the government in achieving the primary objectives of the demonetization. On the other hand, we can't forget the benefits received from this action viz., confiscation of a tiny amount of black money, defusing the violent and immoral activities like

terror funding, Maoist extremism, stone pelting in Jammu and Kashmir encouraged by the separatists, Hawala business, fake currency pumping into the economy etc.,

▪ **Demonetization - Pain or Gain**

It is pain if we understand by looking at figures reported by RBI, Pains of customers, pains of daily wage workers, pains of the unemployed, pains of farmers, pain of economic growth, pains of SMEs, pains of bank employees caused by demonetization policy are uncountable. But, we can't say it is completely pain, there is a gain in the form of benefits achieved by demonetization, explained earlier, be remembered. So, demonetization can be declared that it is both a pain and gain.

Conclusion

It is being concluded that the demonetization is a failure and a success in failure. It is failed in achieving its set out primary objectives of fighting black money, and corruption. On the other side, it has succeeded in mitigating terror funding, fake currency circulation etc., in the economy respectively. A decision should always welcome its pains and gains on equitable basis as demonetization.

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Demonetization: Impacts on Indian Banking System

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Abstract:

Demonetization is the withdrawal of a particular form of currency from circulation. The opposite of demonetization is remonetisation where a form of payment is restored as legal tender. A country completely replaces the old currency with new currency. Its policy of the government by banning Rs. 500 and Rs.1000 currency notes has influenced almost all the corner of the economy. Its effect on Banking Sector is significant as Bank is a centre for channelling the legal tender money to all needs of the society. The biggest beneficiaries of demonetization are Banks. It made the banks to accept the deposits without any cost of promotion and drastically increased liquidity position of the banks. It portrayed the effect of demonetization on Banking Sector. It encompassed the recent decision of the central government on Demonetization and its gradual effect on Indian banking system. The World Bank in July, 2010 estimated the size of the shadow economy for India at 20.7% of the Gross Domestic Product (GDP) in 1999 and rising to 23.2% in 2007. Assuming that this figure has not risen since then and that the cash component of the shadow economy is also proportional estimated unaccounted value of the currency could be to the tune of Rs.3.3 trillion. Now, post the announcement of demonetization by the government this money would have to either account by paying the relevant tax and penalties or would get extinguished. There are higher chances of larger proportion of this unaccounted currency getting as the tax rate and subsequent legal issues could be prohibitively high for such money. In this paper the main focus is to study the merits and demerits of demonetization and its impact on Indian banking system. It can be said as a Black money, Terrorism, Fake Currency, Unorganised trading, Real Estate, share market etc.

KEYWORDS: *Demonetization, cashless transactions, credit, tax evasion.*

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Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency: The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes. Banks are core part of any economy. They channelized the money to the smooth functioning of different sectors. Initiatives of Green Banking, made the banks to transform conventional banking services into modern banking services. The products and services are offered through electronic devices with the help of internet. Now a day, bank services are catered at the finger tip of customers. Surgical Strike on Black Money called 'Demonetization' brought enormous changes in all the sectors of the country. Banks are not exceptional from the influence of Demonetization and it made vibrations in the operations as well as products and services of Banks. It created greater demand to digital banking services where cashless transactions are prioritized. Day to day operations of Banks are affected and found tough in Management of liquidity and Employees. It made greater influence on Management of liquidity and its demand raised by customers in exchanging of their banned currency notes while minimizing risk and maximizing quality of service. At the same time meeting the guidance of Reserve Bank of India was challenging. Demonetization has disturbed the bank operations and made the employees to work under unconditional stress in extended working hours of a day. Most of the banks were not able to discharge other banking services while exchanging the banned currency notes. Hence, the present study is made to figure out the influence of demonetization on banking sector. It showcases post demonetization effect on banks and its operations.

India's Demonetization:

It India also it is not for the first time that the government of India has gone for demonetisation of high value currency. First time it was put into operation in 1946 when Reserve Bank of India demonetised the then circulated Rs. 1000 and Rs. 10000 value currency notes and government then introduced higher denomination bank note of Rs.1000,Rs.5000 and Rs. 10000 value notes in 1954 and in 1978 then prime minister Shri Morarji Desai demonetised these notes in 1978. After 38 years again India witnessed demonetisation of bank notes in November, 2016 and this time government demonetised Rs. 500 and Rs. 1000 notes and replaced it with new designed 500 notes and for the first time Indian government introduced 2000 value note In 2016, the Indian government decided to demonetize the 500- and 1000- rupee notes, the two biggest denominations in its currency system; these notes accounted for 86% of the country's

circulating cash. With little warning, India's Prime Minister Narendra Modi announced to the citizenry on Nov. 8 that those notes were worthless, effective immediately – and they had until the end of the year to deposit or exchange them for newly introduced 2000 rupee and 500 rupee bills.

Objectives:

1. To study the influence of demonetization on banks operations.
2. To find out positive and negative results of post demonetization on bank operations.
3. All the bank accounts are tied up to one PAN (Permanent Account Number).
4. Rs.1000 & 500 were put out of circulation and effect on parallel economy.

Methodology:

The study is based on the secondary sources of data. The secondary data was collected from various published sources like books, reports, magazines, journals, newspapers and relevant government websites.

Impacts of Demonetization in India:

Black Money: Black money stored in the form of Rs 500 and Rs 1000 notes will be taken out of our system. As predicted by ICICI Securities Primary Dealership the government's plan to scrap 500 and 1,000 notes will uncover up to 4.6 lakh crore in black money.

Terror funding: Fake Indian Currency Notes (FICN) network will be dismantled by the demonetisation measures. taking out 500 and 1000 rupee notes out of circulation will have a lasting impact on the syndicates producing FICN's, thus affecting the funding of terror networks in Jammu and Kashmir, North-eastern states and Naxalite hit states.

Real estate may see significant course correction: The demonetization decision is expected to have far reaching effects on real estate. Resale transactions in the real estate sector often have a significant.

Demonetization & Bank operations

Demonetization And Bank Operations Demonetization has brought plethora of challenges in additions to the challenges which are already facing by Banks. The influences were short-term and long-term views. In short-term, it disrupted the banks and stressed strongly to carry out bank operations and in long run it helped the banks to pool the deposits without incurring of any cost. Here are three influences of demonetization on Banks.

1. Increase in Deposits: demonetization has increased the deposits in Banks. Unaccounted money in the form of Rs.500 and Rs.1000 were flowing to the Banks and the sizes of deposits have been increased. It helped the banks to grab the deposits and increase their deposits.

2. Fall in cost of Funds: Over the past few months, the deposits are increased. It led the banks to keep a major part of deposits in the form of cash deposits. PSU Banks have a lion share (over 70%) of the deposits and biggest gainers of the rise in deposits, leading to lower cost of funds.

3. Demand for Government Bonds: After sharp rise in deposits on post demonetization, banks started lending such surplus deposits to the RBI under the reverse repo options. PSU Banks, particularly, deployed excess funds in government bonds. The return on bond investment is likely to add 15 to 20 per cent increase in the earnings of banks.

The following are positive results of demonetization.

1. Free flow of deposits: Banks have gained deposits substantially after demonetization which they can invest for improving their liquidity and profitability.

2. Improved digital Interface: Improvement in digital tools and equipment to execute bank transactions has avoided cash loss for various reasons like theft, dacoits and misappropriations.

3. People's surplus at Bank: cash is an idle asset which does not yield any income unless kept in a bank. So, demonetization made the people to keep their surplus money in a bank to earn some sort of income.

4. Increased number of Customers: Demonetization has influenced public to come and execute transactions with banks. It made even a non income group people to visit bank and have an account. It increased number of account holders in banks while increasing deposit corpus.

Similarly, Demonetization has brought some operational issues to Banks. It disturbed Banks' Employees, Operational Costs and Profitability.

The following are negative influences of Demonetization.

1. Cash Reserve Requirement: 100% CRR on incremental deposits meant that banks did not earn any interest on Rs. 3 Lakh crore of deposits for nearly a fortnight.

2. Waived off ATM Charges: ATM charges were waived off during banned note exchange and banks incurred a loss of Rs. 20 in every transaction.

3. Waived off Merchant Discount Rate: Banks incurred loss of 1% discount charges from merchants on using of every card transaction.

4. Non Selling of Loans: Banks were focused on exchanging currency notes and they were not able to sell any loan products. This made banks to curb their lending activities. “Demonetization and its effect on Banking Sector” Two-day National Conference on Structural, Institutional and Financial Sector Changes (both 22 |Page Global and Indian) in the New Millennium and the Road Ahead

5. Stress on Employees: Bank Employees were put under pressure and overtime work environment. It depressed them and kept imbalanced life style. Few cases were found where the employees committed suicide due to work pressure. V. Conclusion Demonetization is a tool used by central government to fight against corruption and black money. In the same path, it influenced and brought changes in all the corner of the economy. Banks are major institutions affected by demonetization. Banned denominations were ploughed back and allowed the citizens to exchange with the banks. While exchanging, it disturbed temporarily and influenced its regular operations. Though it affected badly to major extent of bank operations, it helped the economy to find growth and development of the country through financial institutions like Banks.

Conclusion:

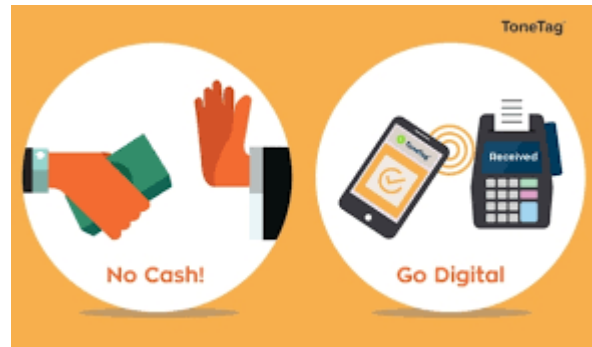
Banks won't not be impressively wedged inside the long run, considering that the cash streams of the beneficiary segment square measure ordinarily inside the littler division. We tend to trust the aggregate measures taken to reign in dark money can enhance keeping money propensities, deliver cash and value based history the basic structure of the bank is increasingly in conflict with the changing product, delivery, and service needs of the customers the future belongs to financial service provider's not traditional banks. The vast majority of large banks, will create value networks. Doing so presents tremendous challenges. Banks will have to first develop a comprehensive distribution system that will enable customers to touch them at multiple points. Banks must also create performance measurement systems to assure the mix products and services they offer are beneficial to both the customer and the bank. With other service providers. Nevertheless, technology alone will not solve issues or create advantages. This technology needs to be integrated in an organization, with the change management issues linked to people resisting new concepts and ideas. It also needs to support a clearly defined and well communicated business strategy.

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Demonetization and its Impact on Indian Banking Sector

Smt Jamunarani H S⁸⁹



Abstract

Banks are core part of any economy They channelized the money to the smooth functioning of different sectors, now a day, bank services are catered at the finger tip of customers, surgical strike on black money called “DEMONTIZATION” brought enormous changes in all sector of country, so demonetization tool to battle inflation, black money corruption an crime. Discourage a cash dependent economy and help trade. in this research paper the main focus is to study the advantages and disadvantage demonetization and its impact on Indian banking sector. Its policy of the government by banning RS.500 and RS.1000currenc notes has influenced all almost the corner of the economy its effect on banking sector. The bank is a one of the best channeling transfer money to all needs of the society. Demonetization made vibrations in operations as well as products and services of banks. Its creates greater demand to digital banking services where cashless transitions are prioritized. Its finds out alternatives of physical cash payments such as online bank transfer e-clearing and E-KYCE.

Keywords: *Demonetization, banks, digital, cashless, e-clearing, money*

Introduction:

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The government on 8th November announced that INR 500 and INR 1000 notes will cease to be legal tender effective immediately. the move is aimed at controlling black money. Fake currency circulation and terror financing India has amongst the highest levels currency in circulated at 13% of GDP. (US, EM average of 4%) some emetics, notes in circulation as of nov 4,2016, Rs. 17742 ban(13% of GDP) value of Rs 500 Rs 1000 notes in circulation (86.5% of notes in circulation); Rs. 15347 ban(11% of GDP)

Meaning:

According to investopedia Demonetization means the act of stripping a currency unit of its status as legal tender. There are multiple reasons why nations demonetize their local units of currency. Some reasons include to brush-off inflation, to brush-off corruption, and to dispirit a cash system. The process of demonetization involves either introducing new notes of the same currency or completely replacing the old currency with new currency. The 'demon' in demonetization is in the beginning. Any Government withdraws the legal tender rights of any denomination of currency, it is known as demonetization. On November 8, Indian Prime Minister Mr. Narandar Modi announced in a broadcast to the nation that Rs. 500 and Rs. 1000 currency notes would no longer be recognized legally as currency. The total currency in circulation in India was Rs. 16.42 lac crore (US\$240 billion) of Rs. 1000 and Rs. 500 notes. The government believe that this demonetization is required for the four main reasons first reason is for stopping the funding of terrorism, second reason for facing the problem of fake Currency, Third reason for making the black money worthless and fourth reason for reducing the corruption, etc. The need for the government to keep the move a secret because the tax evaders would not be aware before the announcement of demonetization took place. For Modi, this is work in progress. In his speech to the nation, he highlights what his government has done so far. Narandar Modi has prompted it will take 50 days for people to adjust to the change. This announcement appears to be the most important change made by the Narandar Modi's government to date, says Girish Vanvari, partner and head KPMG in India. A decision like this can result in the sweeping up of a system for which many trust that it could not be done, as earlier attempts did not have rich impact. However, the decision by Prime Minister Mr. Narandar Modi is one the most historical steps in India. A decision like this can help control inflation, recapitalise banks, minimizing the interest rates and making the economy vibrant, with capital inflows. India is the second most populated country in the world with nearly a fifth

of the world's population. Out of the total 121 crore Indians of Indian population, 83.3 crore of population live in rural areas while 37.7 crore stay in urban areas, said the Census of India 2011. As a rural populated country most of the rural population are engaged in agricultural activities as most of the population of rural areas depends on agriculture. Agriculture forms the backbone of the country's economy. The agricultural sector like forestry, logging and fishing accounted for 17% of the GDP contributes most to the overall economic development of India. it is the largest employment source and a important piece of the overall socio-economic development of India The states of Uttar Pradesh, Punjab, Haryana, Madhya Pradesh, Andhra Pradesh, Telangana, Bihar, West Bengal, Gujarat and Maharashtra are key contributors to Indian agriculture.

Banking overview:

The Indian banking system consists of 26 public sector banks. 25 private banks, 1589 urban banks, 56 regional rural cooperative banks. In addition to cooperative credit institutions, Indian banking industry has recently witnessed the rollout of innovative banking models like payments and small finance banks. The central bank granted in principle approval to 11 payments banks and 10 small finance banks in F/Y 2015-16. TODAY OPERATIONS OF BANKS ARE AFFECTED AND TOUGH IN management of liquidity and employed. It made their banned currency notes while minimizing risk and maximizing quality of service at the same time meeting the guidance of reserve bank of India was challenging. Demonetization has disturbed the bank – operations and made the employees to work under unconditional stress, in extended working hours of day. Most of the banks weren't able to discharge other banking services while exchanging the banned currency notes.

Review of Literature:

1. Nithin and sharmila (2016) studied demonetization and its impact an Indian economy. They opined that demonetization has short term negative impact an different sectors of the economy and such impacts are solved when the new currency notes are widely circulated in the economy, they also argued that the government should clear all the problems created due to demonetization and help the economy to work smoothly.

2. Nikita gajjar(2016) she stated future challenge and demonetization, policy options and strategies that Indian government should adopt to tackle with the issue and the future challenges to be faced by the government.
3. Vijay and Shiva(2016) he stated about demonetization is in the long term interest of the country, they expressed that it had given temporary pain but it taught financial lessons, it influenced banking industries to do considerably investment on digitalization of banking services.
4. Manpreet kora (2017) he said that the cashless system in the economy has fruitful benefits less time consuming less cost paperless transaction, etc.
5. Lokesh (2017) he studied positive and negative impact of demonetization in India, demonetization had negative impact for a short duration on Indian financial market.

India's demonetization:

In India also it is not the first time to government of India has gone for demonetization of high value currency. First time it was put into operation in 1946 when reserve bank of India demonetized the circulated Rs. 1000 and Rs 10000 value currency notes and government introduced higher denomination bank note of Rs 1000, Rs 5000 and Rs 10000 value notes in 1954 and in 1978 then prime minister shri morarji desai demonetized these notes in 1978. After 38 years again India witnessed demonetization of bank notes in November, 2016 and this time government demonetized Rs.500 and 1000 notes and replaced it with new designed 500 notes and for the first time Indian government introduced 2000 value note. In 2016, the Indian government decided to demonetize the 500 and 1000 rupee notes, the two biggest denominations in its currency system these notes accounted for 86% of the country's circulating cash. With little warning, India's prime minister Narendra Modi announced to the citizenry on Nov 8 that those notes were worthless, effective immediately- and they had until the end of the year to deposit or exchange them for newly introduced 2000 rupee and 500 rupee bills.

Objectives of Paper

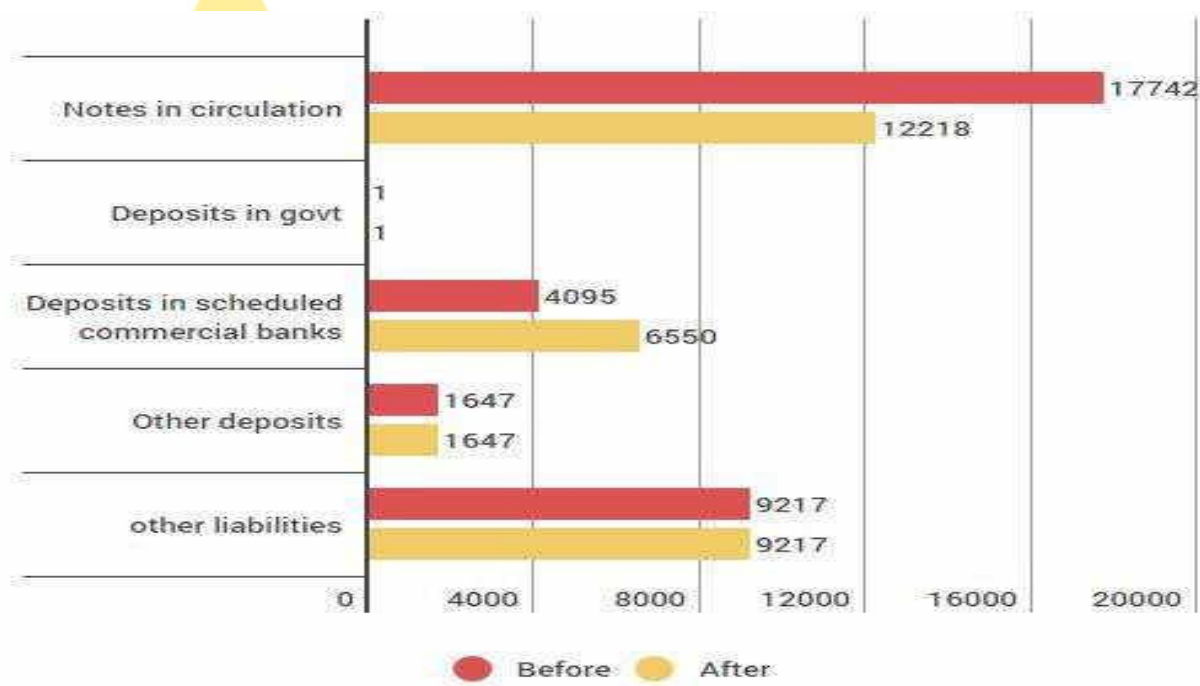
- To study the impact of demonetization of economy of India.
- To study the influence of demonetization on banks operations.
- To find out positive and negative results of post demonetization on bank operations.

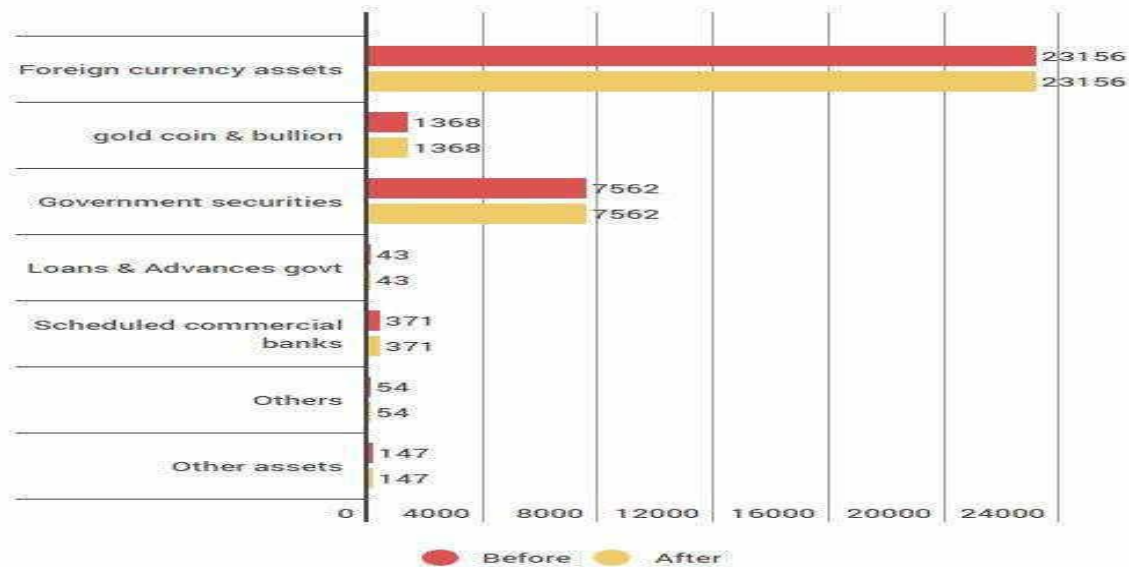
Research methodology:

The paper is based on secondary data, the data has been collected from internet, articles newspapers etc. graph and percentile method has been used to analyze the data. **The impact of**

demonetization on economy of India: impact on RBI balance sheet assets liabilities:

- ❖ **Black money:** black money stored in the form of Rs 500 and Rs 1000 notes will be taken out of our system. As prescribed by ICICI securities primary dealership the government’s plan to scrap 500 and 1000 notes will uncover up to 4. 6 lakh core in black money.
- ❖ **TERROR FUNDING:** fake Indian currency notes network will be dismantled by the demonetization measures. Taking out 500 and 1000 rupee notes out of circulation will have a lasting impact on the syndicates producing FICNs , thus affecting the funding of terror networks in Jammu and Kashmir, north – eastern states and nasality hit states.





Real Estate may see Significant Course Correction: the demonetization decision is expected to have far reaching effects on real estate. Resale transactions in the real estate sector often have a significant cash component as it reduces incidence of capital gains tax. Black money was responsible for sharp appreciation of properties in metros: real estate prices may now see a sharp drop.

Political parties in crisis ahead of polls: with nearly five state elections in 2017, demonetization has stunned political parties. Especially, in large states like Punjab and Uttarpradesh, cash donations are a huge part of “election management”, in one stroke, big parties will fund themselves hamstrung as cash hoards are often undeclared money.

Moving towards digital payments: demonetization will likely result in people adopting virtual wallets such as pay tm. Ola money etc, this behavioral change could be a game changer for India.

Temporary chaos and confusion: public will face minor problem for a few days owing to the scarcity of lower demonization notes in the system.

Advantages:

1. Limiting ATM withdrawals will encourage cash less card payments across the country interest rate there should rise in bank interest rates.

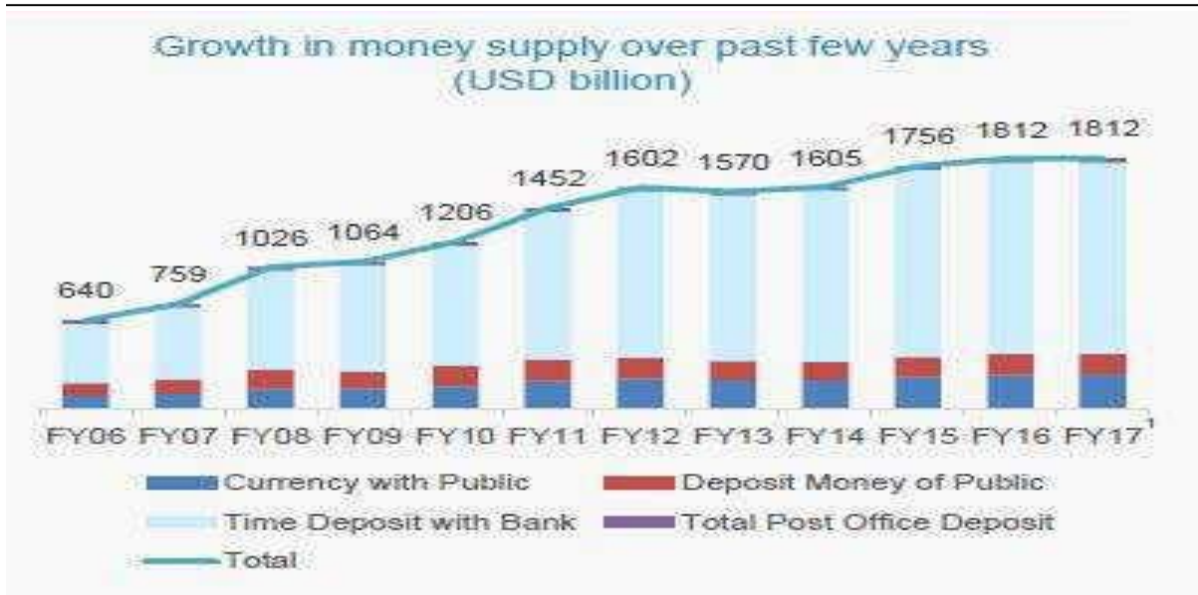
2. Tracking money is made easy as the exchange is only available by producing valid indent proof like adhar pan and election card.
3. Became transactions will be blown away as the new legislation provides provision for seven years imprisonment or fine or both.
4. The decisions result in more transparency in the Indian real estate industry housing prices may witness a downfall restoring demand in the housing segment .
5. Higher education and healthcare transactions will come in the rich of an ordinary man.

Dis Advantages:

1. People who are in village remote areas would not that much aware of demonetization might not be able to exchange their money.
2. Farmers who don't have an account in the bank won't be able to exchange their whole cash into new currency as there are limits imposed.
3. If somebody couple whose has left his family was against their marriage without any identify proof won't be able to exchange their money and will be left with nothing but paper in their hand.
4. Poor people who work on daily wages won't be able to get their wages again as there is shortage of cash.
5. On the other hand as analyses have noted India's larger and new age companies will have no problems in making the switch to RS 2000 notes.

Demonetization and bank operations:

- ✓ **Increase in Deposits:** demonetization has increased the deposits in banks. Unaccounted money in the form of Rs 500 and Rs 1000 were flowing to the banks and the sizes of deposits have been increased. It helped the banks to grab the deposits and increase their deposits



- ✓ **Fall in cost of funds:** over the past few months the deposits are increased. It led the banks to keep a major part of deposits in the form of cash deposits. PSU banks have a lion share of the deposits and biggest gainers of the rise in deposits, leading to lower cost of funds.
- ✓ **Demand for government bonds:** after sharp rise in deposits on post demonetization, banks started lending such surplus deposits to the RBI under the reverse repo options. PSU/Banks, particularly, deployed excess funds in government bonds. The return on bond investment is likely to add 15 to 20 percent increase in the earnings of banks.
- ✓ **Sagginess in lending: lending growth of the bank is considerably less even after demonetization and its impact of growth in the amount of public deposit.** Banks have tried to lend the money to the needy group by reducing their interest rates, but it shrunk over the last few months.
- ✓ **Results of post demonetization on bank operations:** there are positive and negative results of post demonetization on bank operations. Both have influenced banks' liquidity and profitability and employees too, the following are positive results of demonetization.
- ✓ **Free flow of deposits:banks have gained deposits substantially after demonetization which they can invest for improving their liquidity and profitability.**

Conclusion:

Demonetization is a one step of many steps in fighting corruption, black marketing and financing insurgency. However preparation for demonetization was lop-sided, and its impacts was terrible on Indian public. If 86% of cash is taken out, with a meager amount available, all market transactions have been killed. The people, who were targeted, did not come on streets, but common folk are out from their work places as well as homes. , Somebody put a parable on social net. For killing ten International Journal of Scientific and Research Publications, Volume crocodiles, government pumped out all water from the pond results killing ten crocodiles, government pumped out all water from the pond results killing ten thousand fish in pond but Crocodiles walked off on dry sand. With an intention to rid the country of black money and dig out tax defaulters and black money holders, government has taken step to demonetized Rs 500 and Rs 1000 notes. This move will have major impact on the parallel economy but sudden announcement and failure to prepare in advance has created temporary chaos and discomfort among the general public. Common Men are finding it difficult to buy with no money in pocket, wasting hours in queues which although could have been avoided if planned in advance. So far, it can be said that this is a historical step by the Modi Govt and should be Supported by all. This decision of govt. Will definitely fetch results in the long term. From an equity market perspective, this move would be positive for sectors like Banking and E-wallet firms. This move can lead to improved tax compliance, better fiscal balance, lower inflation, lower corruption, complete elimination of fake currency and another stepping stone for sustained economic growth in the longer term.

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Demonetization-An impact on Indian Banking System

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Abstract

Banking system has played a vital role in demonetization as well as remonetization. In general India has among the highest level of currencies in circulation almost at 12% of GDP cash on hand is an estimated at around 3% of household assets higher than investment in equities or roughly around \$220 billion. As per RBI 87% transactions in India are cash transactions and this parallel economy helps in terror financing, black money, which were in turn hampers the growth and development of India. Significant increase in bank deposits due to demonetization, estimated around 1.6 lakh to 1.7 lakh crores. The unusual cash deposit in specific type of accounts, which are usually less active. It has a lasting impact in reducing cash in circulation and increasing the number non-cash transactions in India. Most of these deposits have struck in the banks, due to lack/shortage of new currency notes. Which has made acceleration in Financialisation of these deposits (savings) into liquid assets, capital markets and non-banking financial intermediaries. Principle and interests on some of Loans and Advances of banks were recovered and it contributed to net profit of banks. But the shadow of this demonetization increased the cost of managing withdrawals, injections of new currency notes such has technical changes in ATMs, staff overtime even working on holidays and security arrangements. It is priceworthy that banks have served their customers with their representative who are feeling progressively focused in the face of public anger. The continues notification from RBI and instructions from the government that absence of money provided have led banking establishment facing the fury of customers. The paper highlights the Impact of Demonetization on Indian Banking System.

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Keywords: GDP, Deposits, Financialisation, Cashless Transactions, ATMs.

Introduction

The Indian government has demonetized bank notes on multiple occasion's. In January 1954 banknotes of 100 and 1000 rupees were withdrawn and new notes of 100,500 and 1000 rupees were introduced. The Janatha party coalition government demonetized banknotes of 100, 500 and 1000 rupees on 16 January 1978 as a means curbing counterfeit money and black money.

In 2012, the Central Board of Direct Taxes has recommended against demonetization, saying in a report that "Demonetization may not be a solution for tackling black money or economy, what is largely held in the form of be nami properties the form of benami properties bullion and jewelry. According to data from income tax probes, black money holders kept only 6% or less of their wealth as cash suggesting that targeting this cash would not be a successful strategy.

On 28 October 2016 the total banknotes in circulation in India was 17.77 trillion (US \$ 260 Billion) were 500 and 1000 banknotes. In terms of volume, the report states that 24% of the total 90,266 million banknotes were in circulation.

In an important move the Government of India declared that the five hundred and one thousand rupee notes will no longer be legal tender from midnight 8th November 2016. The RBI will issue Two thousand rupee notes and new notes of five hundred rupees which will be placed in circulation from 10th November 2016. Notes of one hundred, fifty, twenty, ten, five, two and one rupees will remain in legal tender and will remain unaffected by the decision. This measure has been by the PM in as attempt to address the resolve against corruption, black money and counterfeit notes. This move is expected to cleanse the formal economic system and discard black money from the same.

The reasons for demonetization are as under

1. To tackle the black money in the economy.
2. To lower the cash circulation in the country which is directly related to corruption in our country.

3. People will have to either deposit all their money into the bank or eventually just through away the stashed cash which will help bring back all the money was hoarded over the year and make it taxable.
4. There is a large amount of fake currency in circulation which by this one move has been completely removed and will eventually benefit the country in medium to long run and dodgy funds which have been used by terror groups to fund terrorism in India.

Objective of the study

- ⇒ To study on impact of demonetization on Indian Banking System.
- ⇒ To Study on pros and cons on impact of Demonetization on Banking system in India.

Methodology

This paper based on secondary data, the data has been collected through Print Media and Internet.

Following are the key points:

- ⇒ Citizens had a time until 30 December 2016 to tender their old banknotes at any office of the RBI or any bank branch and credit the values into their respective bank accounts.
- ⇒ Cash withdrawals from bank accounts will be restricted to ` . 10,000 per week from 9th November 2016 till 30th December 2016.
- ⇒ For immediate cash needs, the old banknotes of value up to ` . 4,000 per person can be exchanged for the new ` . 500 and ` . 2000 banknotes as well as ` .100 banknotes over the counter of bank branches from 10th November 2016 by filling up a requisition from along with a valid ID proof.
- ⇒ All ATMs will dispense banknotes of only ` . 50 and ` . 100 rupee denominations.
- ⇒ Banks were provided time to all cash withdrawal transactions at their ATMs free of cost to their customers till 30th December 2016.
- ⇒ Cash withdrawals from ATMs will be raised to ` . 4,500 per day card from 19th November 2016.
- ⇒ Again the cash withdrawals from ATMs will be restricted to ` . 2,500 per day card from ` .4,500
- ⇒ Now at present cash withdrawals from ATMs will be restricted to ` . 10,000 per day per card and limits per week was ` . 24,000 only.

Positive Impacts on Banking System

Increase in deposits Significant increase in bank deposits due to demonetisation, says RBI paper Rs.1.7 lakh crore in ‘unusual’ deposits made during demonetisation period, says RBI paper titled ‘Demonetisation and Bank Deposit Growth’.

‘Unusual’ cash deposits totalling Rs.1.6-1.7 lakh crore were made during the demonetisation period, says a research paper posted on the RBI website. In nominal terms, it said, the excess deposits accrued to the banking system due to demonetisation are estimated in the range of Rs.2.8-4.3 lakh crore.

“The ‘unusual’ cash deposit in specific accounts, which are usually less active, is estimated to be in the range of Rs.1.6-1.7 lakh crore,” according to the paper titled ‘Demonetisation and Bank Deposit Growth’. The paper is authored by Bhupal Singh and Indrajit Roy who are directors in the Monetary Policy Department and Department of Statistics and Information Management, respectively. It said that excess deposit growth in the banking system during the demonetisation period (November 11, 2016 to December 30, 2016) works out to 4.0-4.7 percentage points.

If the period up to mid-February 2017 is taken into account to allow for some surge to taper-off, excess deposit growth is in the range of 3.3-4.2 percentage points, it said. “Considering some more temporal tapering of deposits, the exercise taken up to end-March 2017 reveals that excess deposit growth would be in the range of 3.0-3.8 percentage points,” the paper said.

According to the paper, aggregate deposits grew by 14.5% (year-on-year) during the period November 11 to December 30, 2016, as against 10.3% during the corresponding period of 2015.

Overall, there appears to have been a significant increase in bank deposits due to demonetisation, the paper said, adding, “which if sustained, could have favourable impact on financial savings and their channelisation to capital markets”. demonetisation appears to have led to an acceleration in the financialisation of savings.

1. Increase in Digital Transactions/way to Digital India

There is growing evidence that demonetization has had a lasting impact in reducing the cash in circulation and increasing the number of non-cash transactions at India's commercial banks. Four out of every 10 transactions are now through non-cash mode — up from three out of 10 a year ago. The bank claimed that non-cash transactions rose from 30 per cent (of total) in March 2016 quarter to 40 per cent in March 2017 quarter. The non-cash transactions are held through three avenues mobile banking, POS (debit card transactions) and internet banking. The rise came through POS and internet banking. The later is the most popular mode and is now sharing 27 per cent of total number of transactions. POS on the other hand is the new growth engine.

2. The surplus liquidity in the banking system

The surplus liquidity in the banking system, created by demonetization, will lower borrowing costs and increase the access to credit. This will boost economic activity with multiplier effects. As a result, banks were forced to park surplus funds in government bonds which helped lower yields which, in turn, has helped the government raise cheaper funds.

3. Reduction in the cost on collection of deposits

The sharp increase of 4.1 percentage points in the share of CASA deposits in aggregate deposits to 39.3% (up to February 17, 2017) resulted in a reduction in the cost of aggregate deposits.

4. Increase in opening of new bank accounts

Demonetization has influenced public to come and execute transactions with banks. It made even a non-income group people to visit bank and have an account. Post-demonetisation, 2.33 crores new accounts were opened under the Pradhan Mantri Jan Dhan Yojana (PMJDY) and other CASA accounts, bulk of which (80 per cent) were with public sector banks.

5. Increase in revenue to the banks

Banks' net profits essentially reflect the difference between interest earned on loans and advances and investments, and interest paid on deposits and borrowings, adjusted for operating costs and provisions. Banks earned return of around 6.23-6.33 per cent under reverse repos and market stabilization scheme (MSS) as against the cost of CASA deposits of around 3.2 per cent. Accordingly, for an average deployment of about

Rs.. 6 trillion in a quarter under reverse repos and MSS securities, banks' net interest income from increased deposits is estimated at about Rs. 45 billion in a quarter after demonetization. NPA's (doubtful loans) were recovered which helped bank to increase revenue. Post Demonetization helps to the banks to increase their revenue by increasing account maintenance cost like NEFT charges, RTGS, Internet banking, mobile banking etc.

6. Increased banking activities in rural area

All of sudden the decision of demonetization was announced each & every rural person rushed to bank either to deposit or withdraw his or her currency. Clients of bank who visit their branches, relatives, neighbors known & unknown people started to contact the bank employees. So the rural people also got educated about banking activities.

7. Credibility of Banking Industry i.e. Human Resources

As demonetization has given unexpected funds at low cost. Now the responsibility of the banking officials working at any levels to take care of a. Safety & Security b. Investment c. Keep away technology related risks Banking officials at operational level i.e. credit department, technical support staff and Bank boards should be extra cautious to avoid any wrong decision which can lead to lower growth in economy. All this creates the opportunities for new HR personal as well as existing official to get expertise in technology which will put upon them extra burden, stress & opportunities also.

8. Acceleration in the financialisation of savings

Financialisation of savings into Liquid Assets, capital markets and non-banking Financial Intermediaries said that demonetisation appears to have led to an acceleration in the financialisation of savings.

Negative impacts on banking system

1. Regulatory compliance

Demonetization has put extra stress upon the banking officials for management of cash including to check its leakage /theft as it is the property of RBI. Secondly to remit timely SBN with RBI or its established currency chest with proper records of depositors and daily reporting of data /detail related to demonetization RBI'S instructions which were changed from time to time relating to exchange of notes, deposit of notes and distribution of fresh notices especially in view of supreme courts observations i.e. "Bank must ensure minimum payment". HR

portfolio worked under physical & mental stress and to avoid any penalty upon banks in case of Non-compliance of regulators guidelines as well as Govt. of India directions issued from time to time during the given 50 days' time.

2. Increase in Operational Cost

The banks had to change software and hardware of the ATMs and further as all ATMs are to be recalibrated for issue of new denomination notes like `500 and `2000 it will add substantially to their operational expenses and it has also increased their stationary expenses. Which will reduce their income during in next quarter.

3. Increase in Cyber Fraud Activities

The Cyber Fraud Activities are more when public depending on digital operations i.e. usage of debit/credit cards, unified payment interface, payment android applications and etc. As people are not very much versatile with the digital operations, they may face various operational risks like cyber fraud. bank official to be extra vigilant about cyber-attacks just 32 lac ATM data theft, E-wallet thefts, PAYTM frauds. In early February 2016 where bank lost more than \$81 million.

4. Demonetisation may cause to Increase in NPA's

When banks having excess of deposits from the public and banks should pay cost on public deposits. Therefore, bank has to raise revenue by giving loans and advances to the individuals, industries etc. to match its interest on public deposits. Hence the risk of NPA's may increase to the banks when failed to make repayment of loan and interest by defaulters.

5. Increases work stress to bank employees

More than 86% value of the total currency value which was in circulation in Indian economy was suddenly withdrawn by Government of India on 8th November 2016. It is an ancient habit that people used to deal in cash. Cash is preferred in comparison to other modes of payments. The electronic and print media highlighted the difficulties faced by people and stress and hardships including threats, demonstrations beard by Bank employees during the specified period of 50 days. It is a human nature that habits do not change overnight, so re-monetization to bring normalcy in economy was the sole and important tool. Secondly, now the enforcement agencies, regulatory and tax authorities who started their job to scrutinize the JAN DHAN accounts, new opened accounts and high deposit receipt account since 8th

November 2016 will be analyzed. This will create further stress to bank employees who indulged in illegal activities. Banks will hire forensic experts, background screening firms, and mystery shopping firms. Centrally compiled data indicates approximately 15% increase in complaints against banks for misbehavior, deficiency of service and vigilance related issues. Till required level of remonstrance has not been achieved, stress both mental as well as physical will remain upon banks staff which is the backbone of banking industry.

6. Bank lost physical property.

Due to large number of transactions the banks have faced problems from the public at the time of exchanging old currency notes into a new currency notes. As we Indians are known for indiscipline where we see we will succeed tried to use foul language even threats & some areas /parts of the country boycott the bank employees. Some of the bank properties were damaged in this process.

7. Waived off Merchant Discount Rate

Banks incurred loss of 1% discount charges from merchants on using of every Debit/credit card transaction.

8. Non Selling of Loans and advances

Banks were focused on exchanging currency notes and they were not able to sell any loan products. This made banks to curb their lending activities.

Conclusion

Demonetization is a tool used by central government to fight against fake currency, black money, corruption and terror financing. In the same path, it influenced and brought changes in all the corner of the economy and also Digital India. The Demonetization is failed in removing of black money and corruption. Banking institutions are major affected by demonetization. Banking system has played a vital role in demonetization as well as remonetization. Banned high denominations were ploughed back and allowed the citizens to exchange with the banks. While exchanging, it disturbed temporarily and influenced its regular operations. Though it affected badly to major extent of bank operations, it helped the economy to find growth and development of the country through financial institutions like Banks.

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Impact of Demonetization on Indian Banking System

Jayaram R⁹³ and Veena K⁹⁴

Abstract

This study has been undertaken to know the 'Impact of Demonetization on Banking System in India'. This study has been conducted with an objective to analyse the impact of demonetization on banks and banking operations in India. Its effect on Demonetization effect on Banking Sector is significant as Bank is a centre for channelling the legal tender money to all needs of the society. The biggest beneficiaries of demonetization are Banks. It made the banks to accept the deposits without any cost of promotion and drastically increased liquidity position of the banks. The present study is made out of available literature on post demonetization. It portrayed the effect of demonetization on Banking Sector. It encompassed the recent decision of the central government on Demonetization and its gradual effect on Indian banking sector.

Key Words: *Demonetization, Banks, Black money, digitization.*

Introduction

Whether Narendra Modi's radical plan to withdraw currency notes of Rs 500 and Rs 1000 has a prolonged impact on Indian's parallel economy or not is debatable, but it will brighten things up for Indian's banking sector.

Banks are core part of any economy. They channelized the money to the smooth functioning of different sectors. Initiatives of Green Banking, made the banks to transform conventional banking services into modern banking services. The products and services are offered through electronic devices with the help of internet. Now a day, bank services are

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catered at the finger tip of customers. Surgical Strike on Black Money called ‘Demonetization’ brought enormous changes in all the sectors of the country. Banks are not exceptional from the influence of Demonetization and it made vibrations in the operations as well as products and services of Banks. It created greater demand to digital banking services where cashless transactions are prioritized. Day to day operations of Banks are affected and found tough in Management of liquidity and Employees. It made greater influence on Management of liquidity and its demand raised by customers in exchanging of their banned currency notes while minimizing risk and maximizing quality of service. At the same time meeting the guidance of Reserve Bank of India was challenging. Demonetization has disturbed the bank operations and made the employees to work under unconditional stress in extended working hours of a day. Most of the banks were not able to discharge other banking services while exchanging the banned currency notes. Hence, the present study is made to figure out the influence of demonetization on banking sector. It showcases post demonetization effect on banks and its operations.

Review of Literature

Manpreet Kaur¹

In this paper, the author is conducted A study on demonetization and impact on Cashless Payment System. He said that the cashless system in the economy has many fruitful benefits less time-consuming, less cost, paper less transaction etc. and he expected that the future transaction system in all the sectors is cashless transaction system.

Sherline T.I²

The study has undertaken the research on “Demonetization as a prelude to complete financial inclusion”. The main objective of the study was to understand the importance of demonetization as a measure of financial inclusion. Financial inclusion mainly stands for, the delivery of the financial services at the affordable cost to the low income segments of society. As per the report financial inclusion can boost the savings as well as credit availability. The study shows that this move of the Government has likely to create long term benefits. Moreover medium to long term Current account and Saving account (CASA) ratio could improve. Moreover demonetization would reduce cash transaction the real estates, which may decrease the price of that avenues which make it affordable to general public. Moreover the near future inflation will decrease due to less cash transaction.

Objective of the Study

1. To know the impact of demonetization on banking sector.
2. To know the impact of demonetization on banking operations.
3. To understand the effect of demonetization in terms of positive and negative.

Need for the Study

Demonetization was impact on all the economical sector in India. The previous studies analysed that demonetization will reduce the corruption and black money in India and it helps to increase the cashless transactions in India. But still big debate is going on whether it is beneficial to Indian economy or not. Hence this study has been undertaken to analyse how demonetisation is impact on banking system in India.

Scope of the Study

The scope of the study is confined to access the impact of demonetization on banks, banking operation in India.

Methodology of the Study

For the purpose of study the data has been collected from secondary source. The main source of secondary or supporting data is journals and website. The other information is being is collected from various articles and encyclopaedia.

Objectives of Demonetization in India

1. Aimed at combating corruption. And Check black money and fake currency note.
2. 1000 and 500 were put out of circulation and Effect on parallel economy.
3. All the bank accounts are tied up to one PAN (Permanent Account Number).
4. This move shows strength of the Banking system, Retail boost, and increases deposit.
5. This move will also cause short-term pain for the working class, small businesses and nearly anybody who deals with cash on a daily basis.
6. Remove black money from the economy as they will be blocked since the owners will not be in a position to deposit the same in the banks.

Impact of Demonetization on Banking Sector

Impact of Demonetization on Balance Sheet of banks

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- Decline in currency in circulation on account of demonetisation led to a surge in bank deposits.
 - Total currency in circulation declined by about Rs 8,800 billion (Rs8.8 lakh crores). This, in turn, was largely reflected in sharp increase of about Rs 6,720 billion (Rs 6.72 lakh crores) in aggregate deposits of the banking system even after outflows in NRI deposits during the period.
 - Between end-December 2016 and early March 2017, there was a net increase in currency in circulation by about Rs 2,600 billion. During this period, deposits with banks also declined moderately.
 - As per data for October 28, 2016 (prior to demonetisation) and February 17, 2017 (latest available), aggregate deposits of SCBs increased by Rs 5,549 billion during the period.
 - Bulk of the deposits so mobilised by SCBs have been deployed in: (i) reverse repos of various tenors with the RBI; and (ii) cash management bills (CMBs) issued under the Market Stabilisation Scheme (which is a part of investment in government securities in the balance sheet of banks).
 - Loans and advances extended by banks increased by Rs 1,008 billion. The incremental credit deposit ratio for the period was only 18.2 per cent.
 - Additional deposits mobilised by commercial banks have been largely deployed in liquid assets. This may be due to the expected transitory nature of the bulk of such deposits and weak demand as reflected in the subdued growth of credit.

Impact of Demonetization on Profitability of Banks

- Banks' net profits essentially reflect the difference between interest earned on loans and advances and investments, and interest paid on deposits and borrowings, adjusted for operating costs and provisions.
- Loans and advances and investments, which are the main sources of interest income, together constitute more than 85 per cent (61 per cent accounted for by loans and advances and 25 per cent by investments).
- The sharp increase of 4.1 percentage points in the share of CASA deposits in aggregate deposits to 39.3 per cent (up to February 17, 2017) resulted in a reduction in the cost of aggregate deposits.

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- Banks have also lowered their term deposit rates; the median term deposit rate declined by 38 bps during November 2016-February 2017.
 - The decline in the cost of funding resulted in decline in the 1-year median marginal cost of funds based lending rate (MCLR) by as much as 70 bps post-demonetisation (November 2016-February 2017).
 - Banks earned return of around 6.23-6.33 per cent under reverse repos and market stabilisation scheme (MSS) as against the cost of CASA deposits of around 3.2 per cent.
 - Accordingly, for an average deployment of about Rs 6 trillion in a quarter under reverse repos and MSS securities, banks' net interest income from increased deposits is estimated at about Rs 45 billion in a quarter after demonetisation.
 - Banks continue to enjoy the increased share of low cost CASA deposits, although it is gradually declining with the increase in currency in circulation.
 - The increase in net interest income would need to be adjusted for the cost of managing withdrawal of SBNs and injection of new bank notes (such as calibration of ATM machines, staff overtime, security arrangements, lower fees/waiver of fees on digital modes of payments), the exact details of which are not available at this stage.

Impact of demonetization on Jan Dhan Accounts

- Post-demonetisation, 2.33 crores new accounts were opened under the Pradhan Mantri Jan Dhan Yojana (PMJDY), bulk of which (80 per cent) were with public sector banks.
- The total balance in PMJDY deposit accounts peaked at Rs 746 billion as on December 7, 2016 from Rs 456 billion as on November 9, 2016 – an increase of 63.6 per cent.

Impact of Demonetization on Banking Operations

Demonetization has brought plethora of challenges in additions to the challenges which are already facing by Banks. The influences were short-term and long-term views. In short-term, it disrupted the banks and stressed strongly to carry out bank operations and in long run it helped the banks to pool the deposits without incurring of any cost. Here are four influences of demonetization on Banks.

1. Increase in Deposits: demonetization has increased the deposits in Banks. Unaccounted money in the form of Rs.500 and Rs.1000 were flowing to the Banks and the sizes of deposits have been increased. It helped the banks to grab the deposits and increase their deposits.

2. **Fall in cost of Funds:** Over the past few months, the deposits are increased. It led the banks to keep a major part of deposits in the form of cash deposits. PSU Banks have a lion share (over 70%) of the deposit and biggest gainers of the rise in deposits, leading to lower cost of funds.

3. **Demand for Government Bonds:** After sharp rise in deposits on post demonetization, banks started lending such surplus deposits to the RBI under the reverse repo options. PSU Banks, particularly, deployed excess funds in government bonds. The return on bond investment is likely to add 15 to 20 per cent increase in the earnings of banks.

4. **Sagging in Lending:** lending growth of the banks is considerably less even after demonetization and its impact of growth in the amount of public deposit. Banks have tried to lend the money to the needy group by reducing their interest rates, but it shrunk over the last few months.

Effect of Demonetization in Terms of Positive and Negative on Banking Sector

Positive Effect:

1. Limiting ATM withdrawals will encourage cash less card payments across the country.
Interest rates: There should be a rise in bank interest rates.
2. Tracking of money is made easy as the exchange only available by producing valid identity proof like Aadhaar, PAN, and Election Card.
3. Benami transactions will be blown away as the new legislation provides a provision for seven-year imprisonment or fine, or both.
4. The decision results in more transparency in the Indian real estate industry, Housing prices may witness a downfall restoring demand in the housing segment.
5. Higher Education and Healthcare transactions will come in the reach of an ordinary man.
6. The New digital Laws: step forward and bring more, new laws, and understand the safety of digital banking.

Negative Effect:

- i. People who are in village, remote areas would not that much aware of demonetization, might not be able to exchange their money.
- ii. Farmers who don't have an account in banks won't be able to change their whole cash into new currency as there are limits imposed.

- iii. If somebody and couple who's has left his family was against their marriage without any Identity proof won't be able to change their money, and will be left with nothing but paper in their hand.
- iv. Poor people who work on daily wages won't be able to get their wages as there is shortage of cash.
- v. On the other hand, as analysts have noted, India's larger and new-age companies will have no problems in making the switch to Rs 2,000 notes.

Findings:

- The demonetization is impact on banking sector in India.
- Total currency in circulation declined in India after demonetization.
- After demonetization the deposit is increased in banking operation .
- Benami transactions will be blown away as the new legislation provides a provision for seven-year imprisonment or fine, or both.
- . Farmers who don't have an account in banks won't be able to change their whole cash into new currency as there are limits imposed.
- The demonetization is positively impact on Banking system in India.

Suggestions:

The demonetization is the Surgical Strike on Black Money in India, But it effects on common people also, the most of the people are suffered by circulation of new currency notes in India. So that the government should take a proper decision about circulation of new currency notes in India.

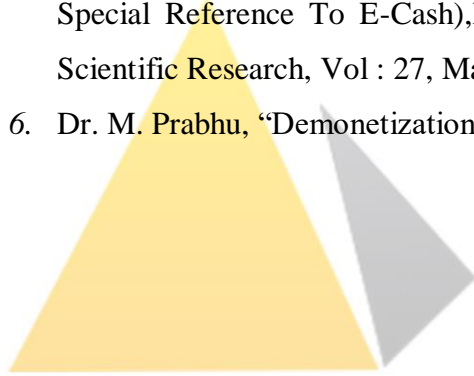
Conclusion:

The demonetization of the highest demonetization note undertaken by the government is a big shock to the Indian. The demonetization is taken for several measures such as tax evasion, counterfeit currency and funding of illegal activities. Some people are depositing currency notes in excess of specified limits directly into bank accounts has showed the unaccounted income, subject to higher tax and other penalties. Alternative payment methods,

such as e-wallets, online transactions using e-banking, debit and credit card usage have been increased and this will shift an efficient cashless infrastructure.

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Demonetization- Indian Banking System

Mrs. Mohini Attimani⁹⁵ and Miss Ashwija⁹⁶

Abstract:

In India also demonetization is not for the first time that the government of India has gone for demonetization of high value currency. First time it was put into operation in 1946 when Reserve Bank of India demonetized the then circulated Rs. 1000 and Rs. 10000 value currency notes and government then introduced higher denomination bank note of Rs.1000, Rs.5000 and Rs. 10000 value notes in 1954 and in 1978 then prime minister Shri Morarji Desai demonetized these notes in 1978. After 38 years again India witnessed demonetization of bank notes in November, 2016 and this time government demonetized Rs. 500 and Rs. 1000 notes and replaced it with new designed 500 notes and for the first time Indian government introduced 2000 value note In 2016, the Indian government decided to demonetize the 500- and 1000- rupee notes, the two biggest denominations in its currency system; these notes accounted for 86% of the country's circulating cash. With little warning, India's Prime Minister Narendra Modi announced to the citizenry on Nov. 8 that those notes were worthless, effective immediately – and they had until the end of the year to deposit or exchange them for newly introduced 2000 rupee and 500 rupee bills.

Banks have gained deposits substantially after demonetization which they can invest for improving their profitability. Their non-performing advances have also come down.

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Besides as banks will reduce their cash holdings due to more digital interface it will add to their long term profitability and cash loss for various reasons like theft, dacoity and misappropriation will be avoided.

Cash is an idle asset and it does not yield any income unless kept in a bank. So people will keep their surplus cash in banks instead of at home. However, during November and December bank work was largely centered on accepting and exchanging specified bank notes. As a result other activities like lending during busy season is affected which will reduce their earning for the next quarter and profitability

Demonetization refers to an economic policy where a certain currency unit ceases to be recognized or used as a form of legal tender. In other words, a currency unit still loses its legal tender status as a new one comes into circulation. The government can take such decisions to stop the circulation of a denomination of notes or coins in the economy. The currency unit that has been demonetized is withdrawn from circulation. During the implementation of this policy, the currency unit that has lost its status as a legal tender is deposited with the banks or other authorized financial institutions and replaced with units that still have legal tender status.

The government from time to time formulates fiscal policies that are meant to spur economic growth. A lot of black money circulates in the economy, and most of it is unaccounted for because the sources of income are not known to the government. It can be money generated through illegal trade or unauthorized funding. To mop up this money out of circulation, the government can demonetize so that the money holders are forced to deposit the cash with the banks or lose their wealth. It is a strategy that has worked quite well for some count

Demonetization can also be referred to as the process of moving people from a cash-based system to a cashless system (digital system). Keeping hard cash is a practice that is not encouraged by the government as well as financial institutions. It is easy for people to evade taxes in an economy where people mostly deal with cash. Keeping cash out of the bank also erodes the deposit base of these financial institutions and drives the cost of credits through the roof. It means that the government has to opt for foreign sources to secure funding and in the process increase the national debt. The economic impacts of which are many and severe. Moving people to a cashless system is, therefore, a favorable economic policy for many

stakeholders. **To demonetize in its simplest definition is thus to do away with cash.** In a market environment that is mainly defined by technology and efficiency, it is every government's desire to have a huge section of the population embracing electronic and mobile payment methods. There are several economic as well as social impacts of demonetization. It can reduce inflation, improve the economy, and result in financial behavior change among citizens. However, if not managed well, it may cause a lot of economic hardships to the people. How the process is managed immensely determines its effects on the economy of a country.

Impact of Demonetization on Banking

The biggest beneficiary from Demonetization will be the Banking Sector

The government's decision on November 8 to immediately demonetize the Rs 500 and Rs 1,000 notes in circulation, which account for 86% of all currency in circulation, has impacted a raft of sectors. Consumers have turned frugal, causing a sharp drop in demand for goods and services. While farmers and small industries will bear the brunt and sectors like transport and real estate will visibly be in pain, several other industrial sectors will have to scale back services or production.

Positive Impact: Increase in CASA deposits for most banks; lending rates to drop further

The biggest beneficiary from this policy will be the banking sector. This is mainly due to the queues of people depositing cash in the banks – which will result in substantial liquidity with the banks. As the deposits with the banks will increase so will increase the CASA, which will increase the Net Interest Income and the Net earnings of the banks. However, this will not be abnormally high since the RBI has increased the CRR in the short term to mop up some of this liquidity. As stated above higher CASA means large amount of deposits are in current and savings account. This way the banks get funds at no or very low cost (interest). Banks do not pay interest on the current account deposits and pays a very low % of interest on savings account deposits. Hence, it is a good measure to get deposits at no or very low cost.

As the banks get a lot of liquidity in their hands, they are expected to enhance the borrowing cycle by lending the money at a lower rate of interest. Hence, the interest rate on borrowing will lower down.

Negative Impact: MFIs, NBFCs miss collection cycles

NBFCs and microfinance institutions (MFIs) are under severe stress as their collection cycles (mostly in cash) have gone awry post November 8. Most NBFCs and MFIs have

announced ‘collection holidays’ till such time there’s sufficient money in the system. The government’s demonetization drive may puncture the earnings of most banks this quarter. With most staffers handling the Rs 500 and Rs 1000 note deposits, exchange and withdrawals, “revenue-yielding” operations such as vending loans and cross-selling investment products have taken a backseat in most banks.

The earnings of banks may take a hit in the third and fourth quarter. We may not see loan book growth as most banks are busy facilitating the demonetization process. They’re not aggressively selling a lot of credit products now. That apart, the SME and real estate sectors, to which most banks lend a significant part of their book – are in a state of major flux.

Temporary measures to mop up liquidity:

The Reserve Bank of India or RBI has announced incremental CRR (cash reserve ratio) of 100% on the growth in bank deposits between 16 September 2016 and 11 November 2016. The entire incremental deposits (~Rs3.2 Tn) in the prescribed period have to be parked with the RBI as CRR. No interest will be paid on CRR, while banks will have to shell out ~4% interest on the funds received in savings deposits. Not only the expected positive carry on incremental deposits has been wiped out, but there will also be a negative carry on such deposits. The higher CRR is a temporary measure to drain liquidity in the banking system and will be reviewed in the fortnight ending 9 December 2016 or even earlier.

This is a temporary measure to suck out excess liquidity in the banking system after the announcement of demonetization by the government as banks were parking bulk of the receipts through reverse repo window. Given the RBI’s limited capacity to accept funds under reverse repo and related interest outflow on the same, the central bank announced parking of incremental deposits under CRR which entails no interest outflow.

Further as all ATMs are to be recalibrated for issue of new denomination notes like Rs.2000 and Rs500 it will add substantially to their operational expenses. It will reduce their income during the next quarter. As people are not very much versatile with digital operations, they may face various operational risks like cyber fraud.

Thus demonetisation is not an unmixed blessing but merits are more than demerits and the economy will move forward with less cash holdings by banks.

Everyone is aware about the demonetization policy of the government by banning Rs. 500 & Rs. 1000 currency notes. One can understand that it would have a pretty bad impact on

SMEs, small traders, real estate, transport sector, consumer durable goods industry. Not only these sectors but it would major affect the rural areas business as over there, majority of the transactions are made in cash. The ban of Rs. 500 and Rs. 1000 currency notes will impact those industries where hardcore cash transactions are made. Demonetization will affect the liquidity, but for a short term.

Current scenario

Before I state anything, a clear picture of all the banks and ATMs is present which depicts today's reality. Long queues of people waiting for currency exchange or deposits outside the banks and for cash withdrawals outside ATMs. But definitely this is for a short time.

Many industries are going to be benefitted due to the demonetization policy and many are going to suffer. But overall the demand is going to or rather has already reduced by 30%-40% due to lack of money with the consumers. As the demand goes down, the profits for the quarter ending December'16 is going to fall. The demand will catch the momentum as the dust settles down. The economy will stabilize as soon as there is enough new currency in the hands of people.

The Biggest Beneficiaries "BANKS"

Yes, the biggest beneficiary from this policy will be the banking sector. The reason behind being called the beneficiary is very obvious because as lot of people are depositing cash in the banks, there will be a lot of liquidity with the banks.

As the deposits with the banks will increase so will increase the CASA, which will increase the Net Interest Income and the Net earnings of the banks.

What is CASA?

CASA is abbreviation of Current Account Savings Account. It is the ratio which indicates how much of the total deposits with the bank are in the current account and savings account. In a simple language, the deposits lying in the savings and current account are CASA.

How does a higher CASA indicates "acche din" for banks?

As stated above higher CASA means large amount of deposits are in current and savings account. This way the banks get funds at no or very low cost (interest). Banks do not pay interest on the current account deposits and pays a very low % of interest on savings account deposits. Hence, it is a good measure to get deposits at no or very low cost.

The banks are expected to make a good profit which would eventually benefit the common men. How?

As the banks get a lot of liquidity in their hands, they will lend the money to the people at a lower rate of interest. Hence, the interest rate on borrowing will lower down. Further, as the CASA increases the banks will not need any other way to get money (loan from RBI or other commercial banks). From the stock market point of view, yes, it can be considered as a good opportunity to invest in Banking stocks for long term.

Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency: The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Sometimes, a country completely replaces the old currency with new currency. The opposite of demonetization is remonetization, in which a form of payment is restored as legal tender.

Conclusion

Banks won't not be impressively wedged inside the long run, considering that the cash streams of the beneficiary segment square measure ordinarily inside the littler division. We tend to trust the aggregate measures taken to reign in dark money can enhance keeping money propensities, deliver cash and value based history the basic structure of the bank is increasingly in conflict with the changing product, delivery, and service needs of the customers the future belongs to financial service provider's not traditional banks. The vast majority of large banks, will create value networks. Doing so presents tremendous challenges. Banks will have to first develop a comprehensive distribution system that will enable customers to touch them at multiple points. Banks must also create performance measurement systems to assure the mix products and services they offer are beneficial to both the customer and the bank. With other service providers. Nevertheless, technology alone will not solve issues or create advantages. This technology needs to be integrated in an organization, with the change management issues linked to people resisting new concepts and ideas. It also needs to support a clearly defined and well communicated business strategy.

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**Unearthing the Efficacy of Demonetization and its Consequence
on Indian Banking System**

Dr. Mahendra Kumar Pattankar⁹⁷ and Dr. Jagadish Hudagi⁹⁸

Abstract:

Currency demonetization is a device to encounter, non performing assets, price rise, Shell Company, fraud and Crime reduction. Policy of the government by prohibition on currency some specific denomination has influenced almost all the corner of the economy. On November 8, 2016, it was decided to demonetise high value currency notes of denomination of 1000 and 500 such notes, valued at 15.4 trillion, constituted 86.9 per cent of the value of total currency in circulation. It effects on banking segment is momentous as bank is a center for moving the legal tender money to all needs of the society as key beneficiaries. It made the banks to acknowledge the deposits without any cost of sponsorship and noticeably increased liquidity position of the banks. All of these would lead to higher GDP increase and tax revenues that could be used by the Government for inclusive and good economic growth within the norms of fiscal discretion the in attended study is made out of accessible transcript on post demonetization. It shows the effect of demonetization on Banking Sector. It encompasses the up to date pronouncement of the vital administration on demonetization and its steady effect on Indian banking system.

Key Words: *Financial firms, Counterfeit Currency NBFCs, Banks segments, currency, Liquid cash, technology, demonetization.*

Preface:

Financial institution and banks are interior part of any financial system. They process money to the soft working in to diverse sectors. Transform of traditional banking services into modern banking services. Services are accessible through electronic devices with the help of internet. Now banks services are at the tip of the finger tip of customers. Measures against money laundering and black Money called 'Demonetization' brought massive changes in all the sectors of the country. Banks are not exceptional from the influence of Demonetization and it made vibrations in the operations as well as products and services of Banks. It created greater

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require to digital banking services where cashless transactions are given preference. Banks are facing trouble and found problem in liquidity and workers. This made better influence on administration of liquidity and it's require raised by clientele in exchanging of their debarred money notes while reducing threat and increasing worth of service. At the same time meeting the direction of Reserve Bank of India was challenging. Demonetization has disturbed the bank operations and made the employees to work under unconditional stress in extended working hours of a day. Most of the banks were not able to discharge other banking services while exchanging the banned currency notes. Post demonetization outcome on banks also tried find out. The current study approaches to outline influence of demonetization on banking segment.

Review of Literature:

In the New Millennium and the Road Ahead that Government of India has become success to some extent. Demonetization had negative impact for a short duration on Indian financial markets. But he said that the real impact will be shown in future.

K. Manpreet conducted a study on demonetization and impact on Cashless Payment System. He said that the cashless system in the economy has many fruitful benefits less time-consuming, less cost, paper less transaction etc. and he expected that the future transaction system in all the sectors is cashless transaction system.

N. Sharmila. studied demonetization and its impact on Indian Economy. They opined that demonetization has short term negative impact on different sectors of the economy and such impacts are solved when the new currency notes are widely circulated in the economy.

G.Nikita, deliberated a study on Black Money in India: Present Status and Future Challenges and Demonetization. She described the framework, policy options and strategies that Indian Government should adapt to tackle with this issue and the future challenges to be face.

Sweta Singhal, Demonetization and E Banking in India. A case study to check the awareness level of people of rural areas in India about e-banking facilities and how much it has increased after demonetization.

V. Shiva assessed demonetization and its complete financial inclusion. They felt that the rewards of demonetization are much encouraging and the demonetization is in the long-term interest of the country. They expressed that it had given temporary pain but it taught financial lessons. It influenced banking industries to do considerably investment on digitalization of banking services.

U.Lokesh on demonetization and its effects in India. He studied positive and negative impact of demonization in India. The study was based on secondary data available in newspaper, magazines etc. The main purpose of demonetization is to eradicate the black money and diminish the corruption. He expressed

Objectives of the Study:

- Evaluating impact of demonetization on financial operations and bank.
- Ascertaining advantages and disadvantages after demonetization.
- Observing overall impact of demonetization.
- To offer suggestion based on our findings.

Methodology:

Study is based on Secondary Sources like, journals, magazines, news paper, books, and certain economic study by the government state and central. It includes accessible published literatures such as books, journals, newspapers and relevant government websites. It attempts to glance at the coverage of demonetization and its influence.

Operation of Banks and Demonetization:

The process of demonetization has brought excess of hurdlesto bank system. The influences were immediate and lasting views. In immediate, the process was very disturbing banks and strained robustly to carry out bank operations and in long run it helped the banks to collect the deposits. Some major aspects of demonetization.

- Inflow of cash. It has amplified the deposits. Circulation of money in to bank increased tremendously in the form of five hundred and thousand rupees notes were flowing to the banks and the sizes of deposits have been amplified. It helped the banks to snatch the deposits.

- Reduction in cost. Since last some time the deposits are improved. Public sector banks have a more share up to seventy percentage of the deposits and major beneficiaries of it, leading to reduction in cost of fund.
- Increase in requirement for gilt edge securities. Subsequent rapid rise in deposits on post demonetization, banks started lending such surplus deposits to the RBI under the reverse repo options. PSU Banks, particularly, deployed surplus funds in government bonds. The return on bond investment is likely to add 15 to 20 per cent increase in the earnings of banks.
- Slackness in lending funds. Lending growth of the banks is noticeably less even after demonetization and its impact of growth in the amount of public deposit. Banks have tried to lend the money to the needy group by reducing their interest rates, but it shrunk over the last few months. Results of Post Demonetization on Bank Operations There are positive and negative results of Post Demonetization on Bank operations. Both have influenced Banks' liquidity and profitability and employees too. Non-Banking Financial Intermediaries Demonetisation has impacted various financial intermediaries differently. As explained earlier, consolidated balance sheet of SCBs has expanded by about 6.7 trillion in the post-demonetisation period. Debt oriented mutual funds and insurance companies have also gained. NBFCs and micro finance institutions MFIs were unfavourably affected, both in terms of disbursals and collection of dues. However, the circumstances with regard to most NBFCs has started to improve from delayed.

Economic Strategy Transmission to Lending Rates:

Excess liquidity conditions have helped facilitate the transmission of monetary policy to market interest rates. Post demonetization, several banks lowered their domestic term deposit rates and lending rates. The median term deposit rates of SCBs declined by 38 bps during November 2016-February 2017 while the weighted average term deposit rate of banks declined by 24 bps. Combined with the sharp increase in low cost CASA deposits, the overall cost of borrowings declined, allowing banks to reduce their lending rates. WALR of banks in respect of fresh rupee loans declined by 56 bps during November 2016-January 2017. During January 2017, 25 public sector banks reduced their 1-year MCLR in the range of 15 to 90

bps, while 17 private sector banks reduced it in the range of 10 to 148 bps. The 1-year median MCLR of SCBs declined by 55 bps during January 2017. During February 2017, six PSUs declined their 1-year MCLR in the range of 15 to 65 bps, while six private sector banks reduced in the range of 10 to 50 bps. Through March 1-7, 2017, two private sector banks reduced their 1-year MCLR in the range of 5 bps and 20 bps. The 1-year median MCLR has declined by a cumulative 70 bps since November 2016 even when the policy repo rate was not changed. This is significant, considering that the 1-year median MCLR declined by only 15 bps during the preceding seven months when the policy repo rate was reduced by 50 bps. The WALR on outstanding rupee loans declined by 8 bps during November 2016-January 2017 as against the decline of 11 bps during the preceding seven months.

Decrease in Deposit and Lending Rates – Post-Demonetization

(Up to March 7, 2017)

Bank Group	MCLR (Median)		Term Deposit Rates (Median)	
	1 year	Up to 1year	1 to 3 years	All Tenors
Public Sector Banks	85	26	35	28
Private Sector Banks	65	50	48	50
Foreign Banks	40	8	34	6
Scheduled Commercial Banks	70	31	40	38

Source: RBI

Jan Dhan Accounts:

Post-demonetisation, 23.3 million new accounts were opened under the PMJDY, volume of which 80 per cent were with PSU. Of the recent Jan Dhan accounts opened, 53.6 per cent were in urban areas and 46.4 per cent in rural areas. Deposits under PMJDY accounts increased significantly post demonetisation. The total balance in PMJDY deposit accounts peaked at ` 746 billion as on December 7, 2016 from 456 billion as on November 9, 2016 -an increase of 63.6 per cent. As there were reports regarding the use of these accounts to convert black money into white, the Government issued a warning against the misuse of such accounts.

PMJDY: Number of Accounts (in millions)

	As on November 9, 2016	As on March 1, 2017	Variation
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Bank-Group							(March 1, 2017 over November 9, 2016)		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
Public Sector Banks	114.3	89.3	203.6	122.1	100.8	222.9	7.8	11.5	19.3
Regional Rural Banks	37.1	6.0	43.1	40.0	6.4	46.4	2.9	0.4	3.3
Private Sector Banks	5.3	3.1	8.4	5.4	3.6	9.0	0.1	0.5	0.6
Scheduled Commercial banks	156.7	98.4	255.1	167.5	110.9	278.4	10.8	12.5	23.3

Note: Figures in parentheses are percentage variations.

Source: Pradhan Mantri Jan Dhan Yojana website.

GDP Growth Estimates by Various Agencies

(Y-o-Y growth in per cent)

Agency	2016-17		2017-18	
	Pre-demonetisation	Post-demonetisation	Pre-demonetisation	Post-demonetisation
IMF	7.6	6.6	7.6	7.2
World Bank	7.6	7.0	7.7	7.6
ADB	7.4	7.0	7.8	7.8
Economic Survey, Government of India	7.0 to 7.75	6.5 to 6.75		6.75 to 7.5
Morgan Stanley	7.7	7.3	7.8	7.7
HSBC	7.4	6.3	7.2	7.1
Nomura*	7.8	7.1	7.6	7.1
Goldman Sachs	7.6	6.3	-	-
ICRA	7.9	6.8	-	-
CARE Ratings	7.8	6.8	-	-
CRISIL	-	6.9	-	-
FITCH	7.4	6.9	8.0	7.7
BofA-ML	7.4	6.9	7.6	7.2

* Pertains to calendar year.

Sources: Growth projections by the Financial Institutions and Rating Agencies were compiled on the basis of media reports published during November and December 2016.

Digital Modes of Payments:

As result of it digital modes of payments picked up penetratingly. The Government of India and the Reserve Bank have initiated a series of measures, some of which are short-term, to encourage movement from cash to non-cash modes of transactions. Such as reduction in the MDR, POS fees, Unified Payment Interface Supplementary Service Data PPI.

After the announcement of demonetization, digital activity levels were low in the initial weeks as people were busy. However, in December 2016, digital payment activity increased alongside progressive remonetisation. The usage statistics show that the y-o-y growth for major modes of electronic payments was good in October 2016, mainly on account of festive season. The continuance of that high growth with a further pick up in some components from November to January 2017 was constructive fallout of demonetization. However, the pace of growth moderated somewhat in February 2017. A description of select categories of electronic payments system is presented in Annex D.

Growth in Select Electronic Modes of Payments¹⁶

(Y-o-Y growth in per cent)

Category		Oct-2016	Nov-2016	Dec-2016	Jan-2017	Feb-2017
NEFT	Volume	16.2	23.3	39.0	38.0	34.5
	Value	37.6	38.3	40.8	60.2	49.5
CTS	Volume	-1.1	23.0	58.4	52.7	20.2
	Value	2.9	8.6	13.0	19.3	0.8
IMPS	Volume	116.7	89.6	157.2	177.7	150.4
	Value	150.7	135.9	186.6	196.7	184.2
NACH	Volume	53.0	30.8	58.3	19.8	-0.9
	Value	89.8	76.3	116.7	22.8	54.2

Source: RBI Bulletins and Press Releases on Electronic Payment Systems - Representative Data

The recent pick-up in digital payment activity is better reflected in the sequential growth in the months following demonetization. The pattern of digital transactions in February 2017 over November 2016 shows that the growth rates surged in both value and volume terms compared with the corresponding period of last year for most electronic modes of payment, even as there was some decline in the use of digital payments after December 2016 (Table 23). Of the various digital payment services that grew sharply post demonetization, some require particular mention.

Advantages of Demonetization:

Free flow of deposits: Banks have gained deposits substantially after demonetization which they can invest for improving their liquidity and profitability. Improved digital Interface:

Improvement in digital tools and equipment to execute bank transactions has avoided cash loss for various reasons like theft, dacoits and misappropriations. People's surplus at Bank: cash is an idle asset which does not yield any income unless kept in a bank. So, demonetization made the people to keep their surplus money in a bank to earn some sort of income.

➤ Increased number of Customers:

Demonetization has influenced public to come and execute transactions with banks. It made even a non income group people to visit bank and have an account. It increased number of account holders in banks while increasing deposit corpus.

➤ CRR: Hundred percentage incremental deposits meant that banks did not earn any interest on Rs. 3 Lakh crore of deposits for nearly a fortnight.

➤ Waived off ATM Charges: ATM charges were waived off during banned note exchange and banks incurred a loss of Rs. 20 in every transaction. Waived off Merchant Discount Rate: Banks incurred loss of 1percentage discount charges from merchants on using of every card transaction. Non Selling of Loans:

➤ Banks were focused on exchanging currency notes and they were not able to sell any loan products. This reduced Sims's Sale and influence on NPAs: During demonetization, some SME businesses had seen their sales drop by 50-80 percent and could default in their installments to banks. This led the banks to consider it as NPA and affected its level in banks. Stress on Employees. Bank Employees were put under pressure and overtime work environment. It depressed them and kept imbalanced life style. Few cases were found where the employees committed suicide due to work pressure.

Observations:

➤ A stingy sixteen thousand corer has not been returned to the Reserve bank of India which is about one percent of the total cash. This benefit has definitely failed to materialize.

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- Forged Notes almost seven point six lakh fake notes were seized in the year 2016–17. This is an increase of 20.4% over last year. Even the RBI report aptly titled a beginning report doesn't offer this information.
 - Non-returning of black money reducing legal responsibility for RBI Government achieves.
 - False notes capture, enhanced accounting of cash in the economy
 - Electronic dealings and digital economy explosion.
 - Informal economy system.
 - Better Tax returns increasing In flow of cash to the government.
 - Liquidity in Banks and financial institution.

Conclusion:

It is an instrument worn by central administration to battle against bribery, frauds, illegal practices, money laundering within the same trail, its purpose to bring changes in all the bend of the financial system. Banks are key institutions exaggerated by it. Expelled denominations were pulled back and permitted the general public to substitute with the banks. While exchanging, it bothered momentarily and predisposed its standard operations. However it affected deficiently to key scope of bank operations, it supported the financial system to unearth development and progress of the nation from beginning to end economy as whole. As the score card says, it's neck-to-neck now. By the end of the year we will probably be able to make a sound final judgment - discounting long term effects. One needs to see the entire progression of events - Jan Dhan Yojana, Aadhaar Integration, Demonitization, UPI, Benami Property laws, Bankruptcy Law, GST and hopefully in the future UBI. NPA straddled banks got some breathing room as well. The GDP of India will grow faster in medium and long term even though a short term setback is delivered.

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Virtues and Vices of Demonetisation

*B B Sunagar⁹⁹***Introduction:**

Demonetization is the act of changing the existing currency in another form. The old units should be retired and replaced by new currency. In other words Demonetization means either introduction new notes or coins of the same currency or fully replacing the old currency with new currency. There is in one important thing exist in economics, which is remonetization which forms of payment is restored as legal tender. There are so many reasons. Why governments demonetization their nation's currency. Some reasons are like resisting inflation resist corruption and discourage a cash system in the country. In Nov , 2016. The Indian government has taken a bold step to Demonetize the 500 and 1000 RS (fully ban) currency notes, these two biggest denominated notes accounted 80% of the currency supply. The government's main objectives of note ban is. To eradicate counterfeit currency, resist tax evasion, destroy the black money, and terrorist financing activities, and to encourage the country towards the cashless economy. This decision is taken by government is for welfare of the nation, but so many questions comes in mind that would note ban decision actually eradicate the black money, if does then at what extent black money will come out. What should be the impact of this decision on Indian economy? Would Indian economy be prosperous or would be poor.

Indians are a resilient lot. By nature we Indians, maybe have it in our blood to bounce back from shocks- natural and man made and get on with things. On 9th November, when the citizens of Indian - were told that the 500 and 1000 Indian rupees or currency notes in their packets will no longer continue to be legal the entire country was in a state of shock. The next few days that followed were long queues outside ATMs(banks were suddenly the most in demand commodity): wage earners requested their bosses for short leave to tend the same.

The prime minister promised the citizens that the pain would last a few days and this was a bold move to tackle black money, corruption as well as counterfeit notes that terrorists use to cause mayhem in our country. The citizens were hopeful: people co-operated and stood outside banks in lines. Even those the vast majority in villages, travelled miles to find a

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functioning ATM's. Many a times, when their turn would come, after hours of patiently waiting, the opportunity cost of job they could be at, the ATM's would run out of money.

Re-monetization: Fast- forward to three months into the Demonetization and the citizens have a right to know what come out of this massive move. Has the Indian economy shown as much resilience as it's citizens? Our current finance minister announced the budget recently: every one wanted to know how much money came back in the efforts of the RBI and the government. After all, was not this the boldest move to tackle black money, corruption and tax evasion? Nothing was announced on that front. It may be a big announcement happens later in the year. Our country men.hoped and got back to work as usual.

Is the economy as resilient? Coming back to the economy, where does it stand now? Let's see the numbers. An article in economic times on 10th February 2017 title " Demonetisation snailed it " sheds some light on the fast moving consumer goods segment. Hindustan Unilever limited a subsidiary of Unilever which has brands like ponds and pear soaps, Lipton tea, Lakme shampoos, kissan juices and jams saw its sales fall 1.2% between October and december. Dabar with iconic brands like " Chyawanprash " saw it's sales drop between october and december is 6.5%. Marico with brands like parachute coconut oil saw it's sales sink to 7.5% Palmolive saw a sales plunge of 7.7%after Demonetization. Major problems on APMC markets but after February graduoly recovered.

These are real figures. so in a few segments, it is evident that the economy has taken a hit. Cashless to digital may sound fancy but we cannot ignore certain other glaring statistics. India is home to largest population of illiterate adults in world- 287 million amounting to 37% of the global total. Without basic education, how easy is it reasonable to expect from illiterate citizens to become 'netizens' overnight?

The income- tax evasion:It is true that we have a pitiful statistic of those paying Tax in a report on C N B C.COM. on India's Income-Tax data. Published for the first time in 16 years.only about 1% of India's population paid tax on their earnings in the year 2013. According to the finance minister Arun Jaitley, Demonetisation has led to 35% rise in personal income-tax, the highest this country has seen. Maybe this also proves that along with resilience, Indians do understand the language of a stringent and bold measures and some times to implement the same, the entire country has to bear the brunt. In the present budget there has been relief from those paying Income-tax at the lowest(bracket) The tax rate for RS 2.5 to 5 lakhs slab income

earners has been cut to 5%. These are measures to get more people to be tax compliant. And it's time people follow heed.

Black money- Demonetization: Real estate prices had sky rocketed due to black money. Post Demonetization we have seen an impact- inflated real estate prices are normalising. The middle class will have the opportunity to buy and rent property at non-inflated prices.

Lastly one hope that the new currency introduced- 500 Indian Rs and 2000 Indian Rs horder to counterfeit: Terrorism is the biggest demonetization and menace that countries face.

Conclusion: Demonetization in India is a great effort taken by Indian government to combat with black money and corruption. It is a bold decision taken by government. The main purpose of Demonetization is eradicating the black money and reduces the corruption. Government of India has become success to some extent. Most of the black money has been crushed. Amount of cash liquidity increased in the back day by day. The country in which bank is strong then that country is more financially strong. In future banks will able to give more and more loans to the individual and to the industrial sectors sot that production will grow in our country, employment will be generate and our country can develop at very fast rate. But this is only future perfections:

Although, the demonetization has created so many hurdles for the citizens of India. Citizens of India faced so many upcoming few months will show the actual economic conditions of our country. Problems due to the demonetization drive. They faced queue problems in the banks and ATM's for depositing and withdrawing money. Citizens of India faced problems of less consumption of goods due to the lack of cash liquidity. Several business disrupted due to the lack of liquidity of cash, business owners as well as consumers faced so many problems.when government took this bold decision about the demonetization in India. Government did not know that Indian citizen will have to face this kind of problem for a long-time. But government has given so many remedies to the citizens of India for time to time on other hand Indian financial market, real estate market fast moving consumer goods sector. Auto assets backed loans etc. All are declined for a short time some economic expert said that positive impact of demonetization will showed in future. Government has also increased the with drawal limits, the queues in front of banks and black money also comes out. Now we should wait and watch the overall impact of demonetization drive.

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Demonetization in India: Expectations and Achievements

Mr. Harish Tigari¹⁰⁰ and Sunitha¹⁰¹

Abstract

The medium of exchange plays a significant role in economic transactions. Every country's economy in the world has its own medium of exchange in form of currency with different denominations. The highest denominations in Indian rupees are five hundred and one thousand rupee before demonetization. The government of India take a step to withdrawing the status of legal tender from a coin from circulation. Demonetisation has been a radical step with short term costs and long term benefits. It has four fold aspects means to curb the corruption, black money, terrorism activities and counterfeiting the currency. It is an welcome move by the government to declare the ineligibility or worthless of five hundred and thousand denominations as a medium of exchange or as legal tender, popularly known as economic emergency to tackle the black money, corruption and counterfeiting currency. The present study intends to analyse the expectations of demonetization and its achievements as well as the impact of demonetization on various sectors in the economy. The methodology of the study includes only the secondary data which is available in different sources like journals, research papers on demonetization, reports published by RBI, Ministry of Finance and other institutions.

Key words: *Demonetization, Digitalization, Digital Economy*

Introduction

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The money is a generally accepted medium of exchange and measure of value .The genesis of the medium of exchange in traditional era is completely different compare to the modern era due to changes takes place in financial instruments. Now the medium of exchange is purely in the form currency notes with different denominations and different names in different countries. The money or exchange medium plays a predominant role in the country's economic growth and development, but the question is about the accountability of economic transactions, means every monetary transaction should be in a legal manner as per law is very essential. In order to maintain the accountability the government is going to take a step towards demonetization.

Demonetization is the act of stripping a currency unit of its status as legal tender .it occurs whenever there is a change of national currency: the current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins .a country completely replaces the old currency with new currency. The government on 8th November announced that INR 500 and INR 1000 notes will cease to be legal tender effective immediately. The move by the government to demonetize Rs.500 and Rs.1000 notes by replacing them with new Rs.500 and Rs.2000 notes has taken the country with surprise. The move by the government is to tackle the menace of black money, corruption, terror funding and fake currency.

Demonetisation has been a radical, unprecedented step with short term costs and long term benefits. The aim of the action was fourfold: to curb corruption; counterfeiting; the use of high denomination notes for terrorist activities; and especially the accumulation of "black money", generated by income that has not been declared to the tax authorities (economic survey 2016-17).The present study intends to examine the expectations of demonetization and its achievements, the purpose of the study is to discuss the pre and post issues of demonetization as well as the impact of that on different sectors in Indian economy. The demonetization is a significant breakthrough step taken by government of India with four fold aspects but one only solution to achieve these aspects is the cashless economy or digitalization or digitalized economy.

Review of Literature

1. **(Economic Survey 2016-17)** Demonetisation has been a radical, unprecedented step with short term costs and long term benefits. The aim of the action was fourfold: to curb corruption; counterfeiting; the use of high denomination notes for terrorist activities; and especially the accumulation of “black money”, generated by income that has not been declared to the tax authorities.
2. **(E.Kamatchi Muthulakshmi1, Dr. G. Kalaimani)**.Central government’s recent decision to demonetise the high value currency is one of the major step towards the eradication of black money in India. The demonetization drive will affect some extent to the general public, but for larger interest of the country such decisions are inevitable. Also it may not curb black money fully, but definitely it has major impact in curbing black money to large extent.
3. **(Ashok K. Lahiri,NIPFP)**Demonetisation of INR 500 and INR 1,000 notes on November 8, 2016 has become a matter of intense debate. Production of high value notes have been discontinued by many countries because these are often used for money laundering and organized crime. The post-demonetisation situation has been complicated by a cash shortage disrupting people’s lives and economic activity.
4. **(Reserve Bank of India March 10, 2017)**Demonetisation announced on November 8, 2016 was aimed at addressing corruption, black money, counterfeit currency and terror financing. Although demonetisation holds huge potential benefits in the medium to long-term, given the scale of operation, it was expected to cause transient disruption in economic activity.
5. **(Dr.Kavita Rao & et al 2016)**.The government has implemented a major change in the economic environment by demonetizing the high value currency notes – of Rs 500 and Rs 1000 denomination. The reason is to undermine or eliminate the “black economy”.

Objectives of the study

1. To analyse expectations and achievements of demonetization in India.
2. To know the impact of demonetization on Indian economy.
3. To understand the impact of demonetization on Digitalization.

Methodology of the study: The demonetization has four fold aspects means to curb the corruption, black money, terrorism activities and counterfeiting the currency. It is an welcome move by the government to declare the ineligibility or worthless of five hundred and thousand denominations as a medium of exchange or as legal tender, popularly known as economic emergency to tackle the black money, corruption and counterfeiting currency. The present

study intends to analyse the expectations of demonetization and its achievements as well as the impact of demonetization on various sectors in the economy. The methodology of the study includes only the secondary data which is available in different sources like journals, research papers on demonetization, reports published by RBI, Ministry of Finance and other institutions.

Expectations and achievements of Demonetization

Demonetization means as per business dictionary withdrawal of a particular form of currency from circulation. In 2016, the Indian government decided to demonetize the 500- and 1000- rupee notes, the two biggest denominations in our currency system; these notes accounted for 86% of the country's circulating cash. With little warning, India's Prime Minister Narendra Modi announced to the citizenry on Nov. 8 that those notes were worthless, effective immediately – and they had until the end of the year to deposit or exchange them for newly introduced 2000 rupee and 500 rupee bills.

The main objectives of demonetization in India are to Combat with corruption, Black money, Counterfeiting currency and Combat with the use high denomination notes for terrorism activities. The intention of demonetization is not limits with some aspects beyond the bellowed fourfold aspects we have estimate micro as well macro economic impact as per the Reserve bank of India report and the economic survey 2016-17. one of the major impact we may expect from demonetization is digital economy or cashless economy, after declare the demonetization we observed that sudden decrease in circulation of currency notes in the economy. Simultaneously the government starts to encourage the cashless transactions. The significant changes in the information and communication technology leads make a positive impact on to determine the black money and promote cashless economy. The aligning digital technology into every day to day life by digitalising everything. Integration of digital technologies into everyday life by the digitization of everything that can be digitized.

Impact of Demonetization

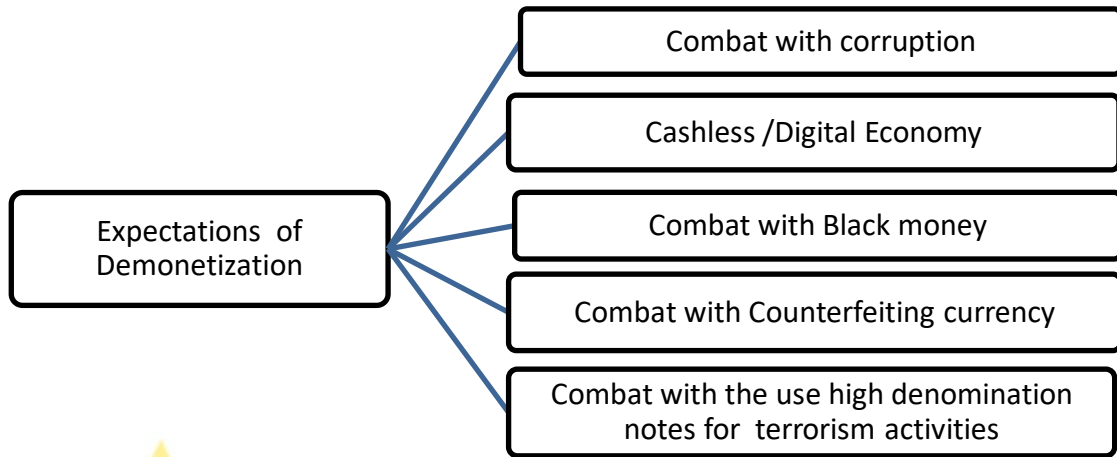
Sector	Short term impact	Long term impact
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Money / interest rates	Cash declined Sharply Bank deposits increased sharply Interest rates on deposits, loans and government securities declined.	Cash will recovered but settle at a lower level Deposits will decline but probably settle higher level Loan rates could fall further, if much of the deposit increase proves durable
Private wealth	Private sector wealth declined, since some high denomination notes were not returned and real estate prices fell	Wealth could fall further, if real estate prices continue to decline
Public Sector Wealth	No effect.	Government/RBI's wealth will increase when unreturned cash is extinguished, reducing liabilities
Formalization / digitalization	Digital transactions amongst new users (RuPay/AEPS) increased sharply; existing users' transactions increased in line with historical trend	Some return to cash as supply normalizes, but the now-launched digital revolution will continue
Financial System Savings	Increased	Increase, to the extent that the cash deposit ratio falls permanently
Tax collection	Income taxes rose because of increased disclosure Payments to local bodies and discos increased because demonetized notes remained legal tender for tax payments/ clearances of arrears	Indirect and corporate taxes could decline, to the extent growth slows Over long run, taxes should increase as formalization expands and compliance improves
GDP	Growth slowed, as demonetization reduced demand (cash, private wealth), supply (reduced liquidity and working capital, and disrupted supply chains), and increased uncertainty	Could be beneficial in the long run if formalization increases and corruption falls

Source: Extracted from Economic survey 2016-17

The digital India programme is a flagship programme of the government of India with a vision to transform India into digitally empowered society and knowledge economy. faceless, paperless, cashless is one of the professed role of digital India. in order to the digital payments or cash less economy various modes or methods payments are available such methods like banking cards, USSD, Mobile Wallets, Banks Pre-paid Cards, Internet Banking, Mobile

Banking etc. As per economic survey report the Digital transactions amongst new users (RuPay/AEPS) increased sharply; existing users' transactions increased in line with historical trend. In long run some return to cash as supply normalizes, but the now-launched digital revolution will continue.



The digital economy is the result of the transformational effects of new General-Purpose Technologies (GPT) in the fields of information and communication. It has impacted all the sectors of the economy and social activities, for instance: retail, transports, financial services, manufacturing, education, healthcare, media and so on. It has implications much beyond the Information and Communication Technology (ICT) sector. In addition, the internet is empowering people in a new and different way to create and share their ideas, giving rise to new content, entrepreneurs and markets.

The question will arise means what we will achieve by declaring the demonetization in Indian economy. We can see different aspects or objectives of this economic reform .As per the economic survey 2016-17 the impact of this economic emergency on various sectors of the economy is very important firstly we need to analyse the impact demonetization on digital economy. The immediate effect of demonetization decrease in money circulation why because approximately 86% of total 500 and 1000 denominations were withdrawn from circulation or as legal tender. It creates the sudden shortfall of currency notes to the public for their day today transactions just because of limited availability of money with limited denominations.

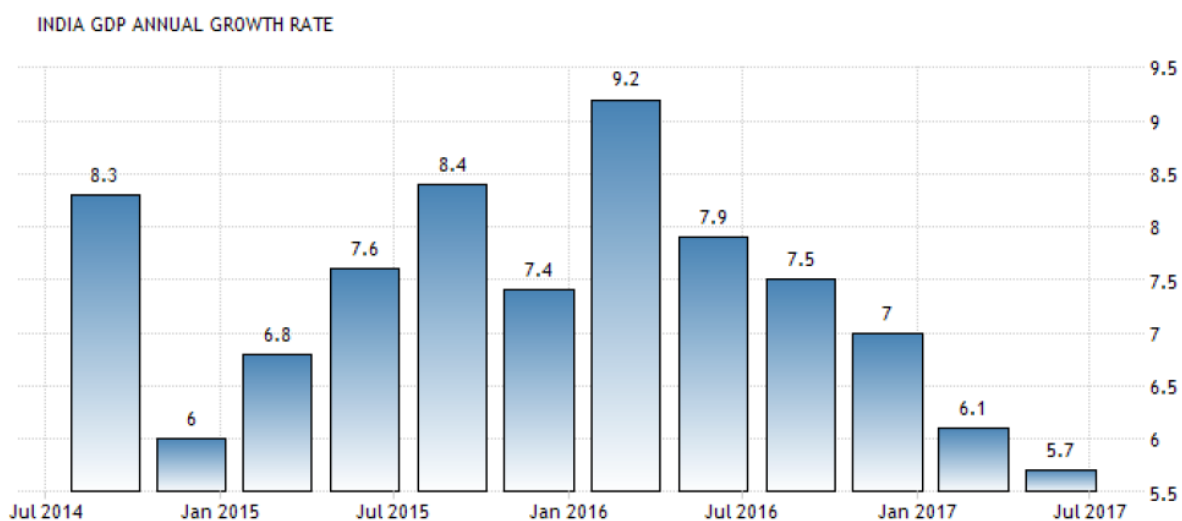
Table – 1
GDP growth rate

Calendar	GMT		Actual	Previous	Consensus	TEForecast
2017-02-28	12:15 PM	GDP Growth Rate YoY	7%	7.4%	6.4%	6.6%
2017-05-31	12:00 PM	GDP Growth Rate YoY	6.1%	7%	7.1%	7%
2017-08-31	12:00 PM	GDP Growth Rate YoY	5.7%	6.1%	6.6%	6.5%
2017-11-30	12:00 PM	GDP Growth Rate YoY		5.7%		7%

Source: <https://tradingeconomics.com/india/gdp-growth-annual>

Graph – 1.1

India GDP Annual Growth Rate



Source: <https://tradingeconomics.com/india/gdp-growth-annual>

The major indicator of the economic development in every country is Gross domestic product(GDP).After taking a significant breakthrough by the government of India through declaring the economic emergency in the form of demonetization the Indian economy expanded 5.7 percent of GDP in the second quarter of 2017,it is below 6.1 percent in the previous period It remains the lowest growth rate compare to the first quarter of 2014 due to some reasons majorly the impact demonetization .The sudden effect demonetization reduces the money circulation in the economy and the spending pattern of consumers is also came down. The demonetization program started in November of 2016 by withdrawing 86 percent of India's currency in circulation.

Findings

- As per economic survey 2016-17 approximately 86% of currency notes were withdrawn from circulation, the circulation of cash in the economy was decreased step by step from the announcement of demonetization.
- By observing the existing review of literature it's clear that there is drastic change in the financial system especially in the banking sector they were face lot of difficulties while collecting the deposits from the public.
- The demonetisation has four fold aspects such as to curb the corruption ,combat with black money, combat counterfeiting currency and also promote the cash less economy.
- Based on reviewing the existing literature I observed that in beginning after declaring the demonetization the government was try promote cashless economy or digitalization.
- This significant breakthrough by the government can also be called as economic emergency because of short term implications like non availability cash to the public for their day today use.
- One of the major impact of demonetization on Indian economy is the weakest GDP means 5.7% in the second quarter of 2017 it is below 6.1 percent in the previous period It remains the lowest growth rate compare to the first quarter of 2014 due to some reasons majorly the impact demonetization .The sudden effect demonetization reduces the money circulation in the economy and the spending pattern of consumers is also came down.
- As per economic survey report the Digital transactions amongst new users increased sharply; existing users' transactions increased in line with historical trend. In long run some return to cash as supply normalizes, but the now-launched digital revolution will continue.

Suggestions:

- The government will have the responsibility to take some precautionary measures to push the GDP by announcing the special package preferably some growing sectors like agriculture, banking, infrastructure public and private wealth, real estates.
- The government of India will take some measures to promote cashless economy by creating awareness about digital transactions to the public.

Conclusion:

As we the meaning ,conceptual background as well as the implications of demonetization I observed by reviewing the existing literature , data statistics, different reports and discussions in the newspaper and media we can see both arguments in favour and against of the move taken by the government ,at beginning stage the money circulation was drastically decreased . It creates sudden shortfall in cash availability as well as lending and borrowing activities in the banking sector. Definitely the demonetization is well come move by the government of India, but as common public we may expect lot from this reform and we may think this is the significant measure to achieve faster economic growth. In the beginning the general public have to face some problems and difficulties but it is short term impact, in long run this move will helps get more benefits.

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Demontisation: Challenges and Opportunities

*Chythra P¹⁰² and Usha K R¹⁰³**Abstract*

Indian government has taken a bold decision on note ban on 08/11/2016. Central government was a judicious, well-thought out and well-implemented step, and whether it would really eradicate all the existing black money. Here I have utilized the opinions of great expert on economics, financial economist and intellectual politicians. This study will help us to know about the positive and negative impact of note ban decision taken by Indian government. This study is purely based on secondary data, which is collected from news papers, magazines, websites from internet, some useful books related to topic etc.

Keywords: - Indian Government, Note Ban, Economist

Introduction

Demonetization is the act of changing the existing currency in another form. The old units should be retired and replaced by new currency. In other words demonetization means either introducing new notes or coins of the same currency or fully replacing the old currency with new currency. There is a one important thing exist on economics, which is demonetization, in which forms of payment is restored as legal tender. There are so many reasons, why governments demonetized their nation's currency. Some reasons are like resisting inflation, resist corruption, and discourage a cash system in the country. In November 2016, The Indian government has taken a bold step to demonetize the 500 and 1000 Rs (fully ban). Currency notes, these two biggest denominated notes accounted 80% of the currency supply. The government's main objectives of note ban is, to eradicate counterfeit currency, resist tax

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evasion, destroy the black money, and terrorist financing activities, and to encourage the country towards the cashless economy. This decision taken by government is for welfare of the nation, but so many questions comes in mind that, would note ban decision actually eradicate the black money, if does then at what extent black money will come out. What should be the impact of this decision on Indian economy? Would Indian economy be prosperous or would be poor?

Need for the Study

This study will be able to know about the future conditions of the economy. This study will also helpful to know the present and future condition of the economy and can take rational decision on income and expenditure. Finally everybody would be able to know the impact of note banned decision on Indian Economy as well as Indian Markets.

Objectives of the study

- 1) To know the impact of note ban decision on the Indian Economy.
- 2) To know about actual present outcomes of the note banned decision.
- 3) To know the pros and cons of demonetisation.

Research Methodology

The study focuses on extensive study of secondary data collected from various books, government reports, publications, and journals, articles from news papers and from relevant websites available on internet.

Demonetisation in India

This is not for the first time Government Demonetizing the currency. Earlier to this India has witnessed demonetization twice. For the first time demonetisation took place in pre independence period. In January 1946, for the first time demonetisation took place in India. During this demonetisation currency note of 1,000 and 10,000 rupees were withdrawn from the circulation and new currency notes of 1,000, 5,000 and 10,000 denomination rupees were introduced in the year 1954. On 16th January 1978, Government of India demonetised the currency notes of 500, 1,000 and 10,000 rupee notes as a means to counterfeit money and black money. The present demonetisation is the third occurrence in Indian Economy and it is the second demonetisation in the post independence period.

Impact of Demonitisation on Different Sectors

GDP: In the near-term, this move will hurt economic activity across sectors with pronounced slowdown across sectors irrespective of the extent of usage of cash. Risk aversion is likely to inch up manifold. Over the next 6 months, most sectors (except IT & Pharma) will face growth challenges, and in particular hurt discretionary spends gold and real estate purchases.

Liquidity and Rates :Improved liquidity in the banking system will be positive for lending rate cuts. The possibility of 50 bps of rate cut by the RBI has also opened up, if demand slow down become severe. This should further support decline in G-sec yields (10 year g-sec yield has already declined 30 bps).

Fiscal Deficit :Downward pressure on prices due to lower demand, especially in rural areas where share of cash transaction is high.

Current Account Deficit: Most of the gains (higher direct tax collections and RBI surplus if any) will accrue in Financial Year 2018. On the other hand, indirect tax collections are likely to be impacted in the near-term due to demand slowdown. Thus, there is going to be near-term pressure on government finances.

Inflation: Discretionary consumption slowdown is likely to impact non-oil non-gold imports. After the initial surge in gold demand (as cash is converted to Gold), gold imports should also start to slow. Thus, the decline in imports should be positive for CAD.

Automobiles:

Pros: Passenger Vehicles: Short term impact due to purchase deferment; demand will revive in medium term.

Tractors: Demand to be materially impacted; plus questionable trade practices like over-voicing to moderan.hiclesTwo Wheelers grew by 6.89 per cent, 13.77 per

Cons:

Two Wheelers: High impact on 2 wheeler sales as, large percentage of rural 2 wheeler transactions are in cash, percentage transactions backed by loans is lower Luxury cars & SUV: Sales will see significant impact due to wealth deterioration and decline in rural transactions.Ac

Commercial Vehicles:Negatively impacted. 2nd hand truck sales, which had higher % of cash transactions, will decline sharply (both number of transactions and pricing)

FMCG Market:

Pros:

Consumer staples: the move should benefit organized retail and hamper the market for local counterfeit goods.

Consumer durables: sales through online retail should pick up relatively.

Consumer discretionary: time lower rates should provide a buffer in the medium term.

Cons:

Consumer staples: Given the need based demand and small purchase tickets, the impact on demand would be muted
Consumer durables: Sales likely to be hampered over short-term, especially sales through unorganized channels as cash purchases (~70-75% of the overall sales) take a hit.

Consumer discretionary: The adverse wealth effect will likely hurt higher end discretionary demand.

Liquor: Most of the purchases by retailers are through cash which may bring down volume in the near term.

Finance Activity:

Pros:

Gold Finance: Positive in medium term – Near term disbursements to get hit as high cash dealing; however, ~75% of gold lending is from unorganized segment which will gradually shift to organized players.

Micro finance: Positive in medium term – ~70% transactions done in cash; Near term disbursements/collections to get hit; however, positive in medium to long term as borrowers shift to bank accounts.

Cons:

Housing Finance: Negative: LAP/developer loans may see increased delinquencies; underlying demand slowdown to affect credit growth.

Auto Finance: Negative: ~60- 70% transactions are done in cash; resale values likely to come down for vehicles; Asset quality issues to worsen.

Asset Finance: Negative: As large chunk of cash based business of asset financing suffers a setback.

Hospitality and Tourism

Pros: Major gain for online Forex market place companies like BookMyForex that have introduced online Forex and have been promoting plastic money (Forex Travel Cards against online or electronic.

Cons:

Hotels: Demand to be impacted due to slowdown in Domestic Travel. Near Term Impact on Corporate Travel whereas Inbound demand to remain unaffected.

Tour operators: Domestic Leisure Travel: Severely impacted as majority of spending is in cash.

Corporate Travel: There may be temporary slowdown in corporate travel due to cash crunch.

Inbound: Inbound travel to remain unaffected.

Outbound: Outbound travel through unorganized players impacted as foreign exchange usage abroad is mostly in cash.

Infrastructure

Pros: EPC/Construction: Most of these projects have big ticket sizes and revenue is from larger corporate houses and government authorities, which do bank transaction. Therefore, due to reduction in unorganized sector in the market, their revenues are likely to increase.

Cons: EPC/ Construction: For small contractors, due to cash crunch there will be some disruption in medium term. Toll collection, which is mainly done in cash, may see some hiccups in short term. Building material: Likely to be negatively impacted as the underlying real estate demand (~60-65% of consumption) will be severely impacted due to curtailment of black money. Large part of transactions done in cash in segments like paints, hence likely to be negatively impacted.

OIL AND GAS

Pros: Temporary pickup in demand due to significant pre-buying of auto fuels Refiners are to benefit from robust refining margins, capacity expansions and higher fuel marketing margin.

Cons: Over medium term, demand, especially for personal transportation could be somewhat negatively impacted due to high proportion of cash transactions.

City Gas: Largely unexpected, the demand for CNG might get slightly hurt where cash transactions are high.

Real Estate

Pros: Overall decrease in inflation due to low living cost.

Positive in long term: demonetization coupled with Real Estate Regulation Act, Benami Act and GST, will transform real estate sector in longer term. Key positives expected - increased transparency, improved investor confidence, better access to funding, higher FDI likely. Higher revenue for government in terms of higher registration cost.

Cons: Greater impact on small builders, and in specific cities micro markets where cash dealing was more prevalent. Resale properties impacted more than primary sales. Organized builders may also face demand slowdown in near term. Another view is, if supply of resale properties declines due to price crash, it may favourably impact primary sales. Registered prices in residential may go up to adjust for cash component Execution of ongoing projects will be affected, and some developers may face serious fund crunch.

Others:

Pros: With cash transactions facing a reduction, alternative forms of payment will see a surge in demand. Digital transaction systems, E wallets and apps, online transactions using E banking, usage of Plastic money (Debit and Credit Cards), etc. will definitely see substantial increases in demand. This should eventually lead to strengthening of such systems and the infrastructures required. Donations in cash taken by education institutions (around 40-50%) and medical colleges (usually greater than 100% of fees) is likely to come down.

Cons:

Media: Cable TV: Elongated working capital cycles for Multi System Operators (MSOs) due to cash dealings of Local cable operators (LCOs). ARPU growth may be delayed and Bad debts may increase due to payment delays by LCOs.

Print Media: Slowdown in real estate (major advertiser in regional print) will impact and revenue growth for Print media.

Metals: Demand slowdown from end consumers such as auto, white goods and Construction (residential) is likely to result in lower domestic volumes. Pressure on debt servicing for leverage metal companies due to drop in volumes.

Conclusions

Demonetisation in Indian economy is having negative impact on the different sectors of the economy. Majority of the negative effect are short run effects. All these effects are solved

when the new currency notes are widely circulated in the economy. On the other hand people are facing some problems in the exchange of currency notes. Even though people are facing such a problem people are ready to bear these problems for its positive effect on the economy. If government successfully clears all the problems, drawbacks associated with the demonetisation, This demonetisation will become the successful economic revolution in India and we can expect a better tomorrow with corruption free India.

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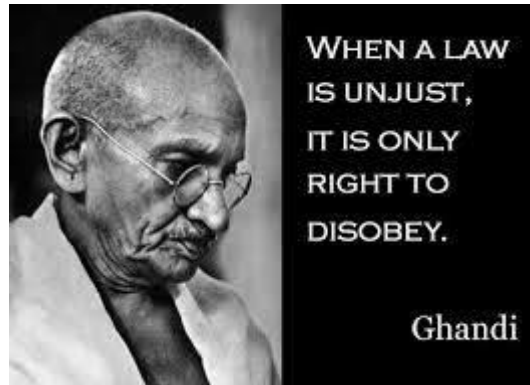
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Social Impact of Demonetization: Social Climate of Fear

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Demonetization has impacted every aspect of life in India ranging from social, economic and political too. **Much of the debate on the Demonetization move has focussed on its economic consequences, not enough attention has paid to political social and psychological aspects which explain different dimensions of the move.** The move has seen both ardent supporters and strong opposition. The tsunami that the demonetisation process has brought has led to feuds between the government and the opposition, besides generating a mixture of responses from the public and media. Though there is near consensus on demonetization adversely impacting the Indian economy, experts and agencies differ on the extent and duration of the impact. Whenever major sweeping changes are made in an existing system, some myths and rumours are bound to be floated around too – partly because of the ignorance of the masses and partly because of a tendency of a section of people to create confusion and panic. The present government's recent Demonetization move is no exception! Prominent stories that have been doing the round over the 300 days are behind the overwhelming debates, discussions and criticism of the demonetisation process that we have been seeing in the past 10 months or so, there have been some **silent positive social effects** too.

Dhiraj Nayyar is officer on special duty and head, Economics, Finance and Commerce at NITI Aayoga says the Demonetisation is an important step in dislocating those who don't play by the rules of the game. **It is easy to be cynical and say that demonetisation will not alter the behaviour of the crooked. It may not change everyone but it will nudge a certain number in the right direction — to pay taxes, to transact without cash.**

Arvind Panagariya, Vice Chairman of **Niti Aayoga** said at the Economic Editors' Conference on 12TH Nov 2016 Those who never feel like going to bank, are impelled by government (*of course for their benefits*) for having an account with the bank. The coveted drive of financial inclusion for unbanked will also be served through this drive, which no other marketing strategy can deliver.

People loved to show –off the wealth, they had, after demonetization tendency to show-off will end. This behavioural change could be a game changer for India [**Rahul Sing 20 th Dec 2016**]. This move towards turning into a cashless economy has shown its effect on the social set up too.

A study by Global March confirms that Demonetisation has brought the trafficking of women and girls for sex work to a stop (a network of trade unions, teachers, and civil society organizations against Child Labour) **Sex trafficking is one of India's biggest organized crime rackets** and estimated that the annual figure in India for this kind of trafficking is about Rs 18.6 trillion) Transactions related to this trade were carried out in cash. With the supply of notes in the economy reduced, people were suddenly left with no liquidity to pay to the middlemen.

Cash payments dominate the category of prostitution and Narcotics Trade too. There have been many media reports of sex service workers asking clients for digital payments – something that could prove to both awkward and arduous for people who indulge in these services. **The Narcotics Bureau has found that while the drug detection rate might be the same as before demonetisation, the quantity of drugs seized from the peddlers now is much less than earlier.**

Financial Intelligence Unit will track all details of the transactions from the banks. So now it is really difficult to get rid of the black money. it has hit hard the terror financing programs as we saw the recent desperate attempts of the terrorists to acquire money through bank robberies in Jammu and Kashmir.

Nobel Prize winner Kailash Satyarthi said that black money was the back bone of the child trafficking industry and now the back bone has been fractured badly after

demonetization. He also added that the team met the Prime Minister appraised him about the development and suggested to take further steps to ensure that black money doesn't get accumulated in the system again.

More Shock and Less Treatment

Another interpretation is simply that this move was not carefully thought through, that the implications were not considered before pulling the trigger. Replacement of the demonetised notes is a time-consuming exercise that requires planning of the highest order. **"There was and is no well thought-out anti-corruption policy to combat corruption. Rooting out corruption and increasing transparency through a policy such as demonetisation as implemented in India are unlikely to come about," T N Srinivasan, Samuel C Park Jr Professor Emeritus of Economics, Yale University (Business Standard 14 Mar 2017)** . The experience for the last four months shows that preparation was **lacking** and the transition could have been handled much better. Banks struggle to handle panicked customers, ATMs run dry within hours. **JNU professor, Arun Kumar** says "The objectives of the government were laudable, but it seems as though the scheme was imposed on the country with little or no forethought," noted economist and former **JNU professor**.

Even critics assume demonetisation was motivated by good intent, which makes it more difficult to go against it. The odd frustrated businessman has even lashed out at the currency swap, saying **it wasn't a good idea handled poorly but a terrible idea handled poorly** as remarked under **scroll.in discussion**. Despite petitions being filed at the Supreme Court, the top court has refused to intervene in the matter.

The question that needs to be asked concerns the relative importance of **social and political influences that generated greater support than opposition against demonetisation**. But as **KC Chakrabarty**, the former deputy governor of RBI mentions, you do not throw away the entire bag of rice just to get rid of few stones and foreign particles in it.

It was seen as a dramatic measure that would enhance the regime's credibility in fighting corruption and black money and divert attention from its perceived failures on this and

other fronts. This was **Diversionsary tactic as Zoya Hasan** is Professor Emerita, Centre for Political Studies, **JNU**, and **Distinguished Professor, Council for Social Development, New Delhi**. By December 30, practically the entire stock of old bank notes had been deposited, thus undermining the government's claim of extinguishing black money. Given the failure of the initial drive against black money, **the goalpost** was changed from curbing black money to cashless economy to digital transactions, all this to justify the move which had caused so much disruption.

The only thing missing, so far, in this fascinating story is hard data on the progress. There are more questions than answers.

Major social implications are as follows

1 Fear and Insecurity in Everyone about Cash

In a single stroke, nearly 86% of the currency in an economy powered by cash transactions, with 50% [A recent media release by the **National Hawker Federation**] people without bank accounts, was wiped out. The move disrupted the lives of ordinary people, led to widespread hardship for the poor, major job losses and over a hundred deaths. **Remigration has started**. How to make them employable? But the poor and people working in the informal sector have not only been inconvenienced, they have been dislocated and their livelihoods irreparably damaged. Standing in a queue or being late to work is an inconvenience, but collapsing businesses and losing jobs go beyond inconvenience. Old and sick people are forced to stand in queues for hours just to feed themselves and their families.

Arun Roy says that 'This time the government has instilled fear and insecurity in everyone about cash'. Arun Roy-says 'Even the most honest citizen is being harassed and told they have no control over their own cash'.

A woman who sells peanuts says that she fears entering one as banks "treat us like dogs". [Gurkha Ganga Bhadur Tapa [The Hindu dt 3-3 -2017]

ON 17 NOVEMBER, A GROUP OF SOCIAL ACTIVISTS, ECONOMISTS, AND ACADEMICIANS, INCLUDING ARUN ROY, issued a statement RAISING SEVERAL QUESTIONS ABOUT THE DEMONETISATION POLICY.

Despite the huge distress and disruption, the general sentiment till today in favour of the decision. **It is worth asking why political mobilisation against the exercise is proving to be so difficult.**

JEAN DREZE SAYS "IN TERMS OF THE HIDDEN PURPOSE, DEMONETISATION MAY BE A SUCCESS, BUT AT THE EXPENSE OF THE GENERAL PUBLIC," THIS IS MOTHER OF ALL DISRUPTIONS. THESE CLAIMS ARE BASED ON WHAT MIGHT BE CALLED THE HOARD THEORY OF BLACK MONEY. IN THIS VIEW, BLACK MONEY IS A GIGANTIC HOARD OF ILLEGAL INCOME THAT KEEPS GROWING AND NEEDS TO BE FLUSHED OUT. THIS IS WRONG. A STUDY BY NIDHI AGRAWAL AND SUDHA NARAYANAN AT THE INDIRA GANDHI INSTITUTE OF DEVELOPMENT RESEARCH SHOWS THAT MANDI ARRIVALS OF NON-PERISHABLE AGRICULTURAL COMMODITIES CRASHED ACROSS THE BOARD WITHIN A WEEK OF DEMONETISATION. PRABHAT PATNAIK IN THE CITIZEN (14 MAR 2017) ONLINE DAILY SAYS IN SHORT, "BLACK MONEY" REFERS TO A WHOLE SET OF UNDECLARED ACTIVITIES. "BLACK MONEY", IT FOLLOWS, REFERS NOT TO A stock BUT TO A flow.

JEAN DRÈZE, DHEERAJ KUMAR AND AKASH RANJAN ON 26/12/2016 in their study **Demonetisation Decimates Ranchi's Economy** says that almost all the sample trades have been adversely affected. The unweighted average of the reported declines in earnings is as high as 46%. In other words, the level of business activity in Ranchi is barely half of what it used to be. The study asked the respondents how much time they had spent in bank or ATM queues during the preceding month. The average comes to 13 hours (11 hours at the bank and 2 hours at the ATM). Some traders claimed to have spent 30 to 40 hours at the bank since November 8. Two lucky respondents reported marginal INCREASES in earnings post-demonetisation. One was selling khaini (chewing

tobacco); he said that sales had increased because many labourers were unemployed. The other one was renting private vehicles; he said that he had done well because petrol pumps were accepting old notes, making it attractive for some people to use his services.

Lawrence. H Summers and Natasha Sarin from Harvard felt that the move is ill conceived. They point out that demonetization of currency which is widely used by ordinary people, overnight, **violates the principles of a free society** causing great suffering among innocent people.

2 Independent Women are now dependent

Cash is a lifeline for women. In a country [as per UNDP REPORTS 2014] where an estimated 80% of women [TOI 15th Dec 2015] are not part of the banking system particularly those who are being abused,” said **Shivani Singh**, the chief counsellor at the **Bhopal crisis centre**. “Without money, they have no way to plan an escape, to file a case, or to just take an auto to a police station or to a chemist to buy medicines. “Many of the women who come to us are uneducated,” she said. “It’s not a question of filling out forms for them, but the fact that even entering a bank is an intimidating and hostile experience.” But now, the demonetisation has not just left them with a cash crunch, **it may have also laid bare their secret saving strategies – to their peril.**

This has been particularly hard on **households run by single women**, said **Jagmati Sangwan**, vice-president of the **All India Democratic Women’s Association**. “The news came in the evening, and whether women are educated or not, whether they work or not, few of them venture out late here,” she told **Scroll.in** in a telephonic interview. “What this means is that if they work during the day, they have no time to go to the banks and exchange the money in the evening. And if they don’t work and have been saving money without the knowledge of their family members, to buy even the smallest freedom, they cannot change this money without revealing themselves, and that makes them unsafe.” As a result of this, Sangwan said, many women in the mohallas where the association works had started selling their Rs 500 and Rs 1,000 notes at a lower value. Fearing that she would lose Rs 54 lakh on account of the

demonetization of big currency notes, a woman in Telangana's Mahabubabad district committed suicide.

I doubt whether women in rural BALLARI(KARNATAKA), for example, could openly go and stand in queues outside banks to exchange their own money without censure from family/society. Many traditional saving methods for women are informal cash based methods eg. the Mahila *mandal*, 'self-help groups' chit funds, co-operative societies etc. With these methods in jeopardy, are we further disempowering the woman?

“This black money-white money is a conversation for men,” she laughed. “For us, money is food for the children.” As recorded by Jagmati Sangwan

However, **Jagmati Sangwan**, vice-president of the All India Democratic Women's **Association** pointed out that plenty of poor people had welcomed the demonetisation move, despite the fact that it has inconvenienced them the most.

WEDDINGS

Families have had to cancel or postpone **weddings** till the pressure eases. The RBI has also imposed stiff conditions for withdrawal of up to Rs 2.5 lakh in cash from bank accounts for weddings – now the money can be withdrawn only from the credit balance as on 8 November, the day demonetisation was announced.

The shock move invited widespread criticism. It provoked protests and a lot of anger and agitation, but most of it was directed **against local irritants, particularly banks**. There are numerous reports of angry crowds locking up banks and jamming roads to protest against the non-disbursement of cash.

Psychologist Ekta Soni of Delhi's Apollo Hospital, said nearly 30% of those whom she counselled in November-December spoke of demonetisation as **a new source of anxiety**. Women in particular focused on inter-personal stress, of their husbands becoming irritable because of the pressure demonetisation mounted on them. It made their depression a little bit

more difficult to cope with. It is also possible that the psychological impact of demonetisation could perhaps have been far more discernible if there was no stigma around seeking psychological treatment.

Psychological treatment is a matter of choice than compulsion,” said Soni. “People don’t seek help until their problems become unmanageable or they are on the verge of breakdown.”

A curious aspect of demonetisation was pointed out by **Dr Tarlochan Singh, a psychologist at Ludhiana’s Guru Tegh Bahadur Hospital.** He is part of a team of doctors that visits villages to provide mental healthcare.

“City-dwellers showed anxieties about the future,” said Singh. “By contrast, **villagers had regrets** about their past – for instance, bemoaning that they should have invested in land or gifted more gold to their daughters on their marriages.”

All India Institute of Medical Sciences in Delhi and Apollo Hospital in Bengaluru didn’t have a single case that could be remotely linked to demonetisation. **Dr Rakesh Chadda, [AIIMS]** says “But yes, in the larger society, there was a great deal of anxiety about the future, a forbidding feeling of chaos. **There was also a joyous sense of satisfaction at demonetisation.”** His junior colleague **Monica Mongia** thought people in general seemed under tremendous stress **“because they felt that somebody else was controlling their lives, making their future appear unpredictable.**

3 Farmers and Demonetization

For the poor timing of the decision saying farmers have been hit hard just ahead of the harvest season, as cash is the primary mode of transaction in agriculture sector, demonetisation caused temporary stress in the system. The steep decline in transactions at various states APMC’s (up to 70 percent as per reports) in the aftermath of the decision is a testimony to this

fact [MANAGING DIRECTOR, RUCHI SOYA INDUSTRIES LTD Dinesh Shara, Firstpost e-book 8th march 2017].

Madhya Pradesh Kisan Ayog president Bansilal Gujar blamed the demonetisation-induced cash crunch as the prime reason for the price fall. “Earlier one trader used to lend cash to another trader but this practice has come to a halt as there is not enough money,” he said.

Devendra Sharma, an independent agriculture expert, termed the situation as **worse than drought saying** that farmers could seek compensation for a natural calamity but not for loss because of demonetisation. “I think farmers will take a lot of time to recover from the impact” he added. **While Centre has a minimum support price for grains, there is no such cushion for horticulture products, leading to farmers facing market vagaries.**[The Hindustan Times 26 Dec 2016].

Farmers have been complaining about the crash in vegetable prices since demonetization was announced. **Hitesh Varu, president of Chhattisgarh Yuva Pragatisheel Kisan Sangh** and said, "We distributed about 1 lakh kg of vegetables to about 30,000 people in protest on "3rd Jan 2017.

Ajay Vir Jakhar, chairman of Bharat Krishak Samaj said "Farmers growing perishables like fruits and vegetables have suffered losses of ₹20,000 to ₹50,000 per acre on an average."

Formal financing in many parts, especially Punjab, Uttar Pradesh, Odisha, Maharashtra, Gujarat and Kerala is significantly from **cooperative banks**, which are barred from exchange-deposit of demonetized currency. Most of the APMC markets (more than 50%) in the rural areas don't have banks and also ATMs. Even though, some markets had ATMs, they are not working, if they are working cash was unavailable. Farmers were ultimately **depending on illegal money lenders** and black marketers to cater to their transaction needs.

But there's no social unrest yet. The lack of large-scale protest is by no means an expression of popular support for the government's decision but it has been interpreted not just as acquiescence but endorsement of the demonetisation move.

4 Pains and Freedom

SCROLL.IN spoke to 20 psychiatrists, clinical psychologists and psychoanalysts, most of whom are located in North India. They plotted India's psychological graph through 100 days of demonetisation. The discussion says that

Dr Ashok Nagpal, Dean of Human Studies in Delhi's Ambedkar University. **The Indian psyche was divided because of the two dominant views on demonetisation,** said psychoanalyst "The cleavage in the Indian psyche was **between pain and freedom,** leaving none untouched," said Nagpal. To them, demonetisation represented a dream in which they were on the same level as the rich, queuing up together outside banks. It was as if the queue was the nation. But demonetisation also spawned what Nagpal called the "**imagination of jail**". It sparked rumours about the officials inspecting people's private bank lockers and trying to establish whether houses really belonged to those in whose names they were registered.

Anurag Mishra and Dissociation

Anurag Mishra, chief of the psychoanalytical unit of Fortis Hospital, Gurugram, calls "**nihilistic glee**" where the dream that demonetisation would become the great equaliser of classes triggered. "Worse, the societal panic grew manifold because banking rules were changed every passing day. "Anything that disrupts the rhythm of life is traumatic," said Mishra.

"That's why demonetisation was traumatic."

Anurag Mishra said it was perhaps because of "**dissociation**", a psychoanalytical term for a condition in which a person doesn't identify with what is happening to them, when they watch their experiences as if it were happening to another person. "People suffered because of

demonetisation, but they didn't identify with it," said Mishra. And because they didn't identify with it, they were numbed into quiescence. This is almost same as Marxian **Alienation**.

Grief and rationalisation

The lack of protest could also be because the nature of popular response to demonetisation was one of grief, suggested **psychoanalyst Dr Rajat Mitra**, who heads the **Swanchetan Society for Mental Health in Delhi**. "People grieved because demonetisation severed their old relationship with cash. Our relationship with cash is deep and as sacred as a religious tradition." People grieved as they would at a breakdown of a relationship they value or at the passing away of a loved one. **A grief reaction typically has five stages – denial, protest, sadness, rationalisation and fear. "Given that demonetisation affected just about everyone, you would have thought that psychological implications would have been far more severe than what we witnessed," said Mitra. "It speaks a lot about our resilience as a society.**

Social Climate

It is worth asking why Social - political mobilisation against the exercise is proving to be so difficult. Let me start with Middle class. What prabhat Patnaik quotes (The Citizen online Daily 14th Mar 2017) Arthur Bowley the renowned British statistician who had taught for years at the London School of Economics used to say: **"The most significant facts of social life cannot be exactly quantified, but they can be directly observed". In India today we are being asked to disbelieve what we directly observed in consequence of demonetization, on the basis of some totally spurious quantification. And that constitutes an "inversion of reason".**

For India's middle classes, demonetisation has become a moral project. The Great Event has little to do with economic logic. It has been portrayed as a crusade against tax evaders to help the poor. Some describes it as **'redistributive justice', 'a war unleashed against the corrupt'** and venal elite flaunting their black money. Hence, many people believe that in trying

to curb black money, government is acting against the unscrupulous rich hoarding piles of illicit cash. Three more other reasons can be adduced to explain the relative shortage of protest.

First is the Indian obsession with black money.

Second Successive anti-corruption movements have played a major role in creating this perception.

Third Thanks to Bollywood films and visible action against black money successfully channels the anger of the people in favour of those who are seen to be doing something to eradicate it. **The government recognises this is a problem but it is attempting to paper it over by invoking the spirit of voluntarism and sacrifice**

Any discussion of public protests must also take into account the fact that large and **visible protests are not spontaneous**, they are usually an outcome of mobilisation by political parties; but parties have been stymied because mobilising against demonetisation can be instantly condemned as support for corruption.

In THE INDIAN EXPRESS, Shailaja Bajpai writes about the **"divided" media coverage in which evening debates applaud demonetisation, while daytime reporting is all about the queues**. She underlines the need to **"separate fact from fiction and feelings**. P sainath The chairman of the Central Board of Direct Taxes said in a 2012 report on MEASURES TO TACKLE BLACK MONEY IN INDIA AND ABROAD. The report also said (page 14, Part II, 9.1) demonetisation "miserably failed" on two past occasions in 1946 and 1978. **Soiled notes worth crores of rupees in denominations of Rs 50 and Rs 100**—meant to be sent to the Reserve Bank of India for final destruction—are being reintroduced into circulation. The RBI knows of this but condones it through silence.

Conclusion:

According to New Delhi-based PRS Legislative Research, the month-long winter session was the least productive in the past 15 years. Instead of finding ways to tackle graft through the tightening of regulations and controls on real estate and political party funding,

demonetisation was promised as the ultimate solution. There is no magic wand. What best could have done immediately is to bring about accountability honestly in the system; one of the key ways of tackling black money. Businessmen, politicians, bureaucrats, police and judiciary are not accountable. So how to bring accountability? That's the key. If we can bring about accountability of these sections, then we can solve the problem of black money.

The impact of demonetization was felt more in the social sector and the worst affected was also the poor and the common people. Salaried class is not still able to withdraw their salaries from the banks and ATMs as a result of cash deficit. Government must assess impact of Demonetization on Agriculture at the earliest to arrest Production and Earnings loss.

Finally as a relief to poor people, GOI has announced that black money retrieved from the demonetization measure will be deposited for four years without interest **on Garib Kalyan Yojana** to benefit the poor in marriage. This will create a positive impact on the social sector in the long run.

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**A STUDY ON IMPACT OF DEMONETIZATION OVER THE
BANKING SECTOR WITH REFERENCE TO DAVANAGERE
CITY**

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ABSTRACT

The primary objective of this study is to investigate the impact of the demonetization over the banking sector. The study covers the banking sectors of specially Davanagere city. For the

study I had selected total 13 banks of Davanagere city. Further for the study aspect I had chosen the structured questionnaire, which was filled up by bank employees. To grab the knowledge I asked them questions related to the black money, online banking, accounts of banks which highly affected, Government's preparation for post demonetization situation as well as customer's preference to keep their money either at home or bank. By analysing the data collected almost 55% employees agreed with the view of positive impact of demonetization. Highly affected accounts were saving a/c and current account. Almost 51% employees had opinion that customers are moving towards online banking. 52% employees said black money which is in form of cash has been curbed by government. 69% employees were positive about customer behaviour on keeping money at bank. By seeing all areas mentioned above I can say that as compare to previous two demonetization, this one is successful. Still as compare to short terms, more positive impacts can be seen in long term. Though this paper is only having data of Davanagere city banks it can be used for further analysis in this area.

KEY WORDS: Corruption, banks, black money, post demonetization effect, online banking, Davanagere

INTRODUCTION

Concept of Demonetization:

Demonetization is the act of removing the existing currency from the economy and replacing it with the new one. It is the step taken up by the Government on 8th November 2016 generally with the motive of removal of corruption, black money. Moreover it is the act of depriving of value of currency for official payment. It does not only include the currency but also include the precious metals. Originally Demonetization is the French word "demonetiser" dating back to 1850-55. The reasons for the Demonetization are. To fight with inflation, to beat the corruption, to remove counterfeit currency and to discourage the cash system. Developing country like India has to find the solution of problems like this for betterment of country.

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LITERATURE REVIEW

Chabi Gupta (December 2016) had studied about the payment banks and demonetization. To explain her research point, she had explained about the Indian banking sector. Payment banks are generally niche banking set up by RBI, payment banks provides small saving accounts and payment services mainly for low income household, small businesses etc. Then she had explained the overall impact of demonetization move. According to the Reserve Bank Of India (RBI) figures, as of March 2016 currencies in circulation amounted to Rs.16,415 billion of this 500 notes were of around 47.8% in value and 1000 were of 38.6% in value. Jointly they had 86% value in the economy. Many banks like HDFC, ICICI and AXIS are exploring to launch the contact less debit and credit card. It will allow the customers to use card without swipe.

Parul Mahajan, Anju Singla (January 2017) had studied about the effect of demonetization on financial inclusion. In their study they have studied on various participants of financial inclusion drive such as ordinary individuals, informal sector, rural population, MSMEs, NBFC MFIs and E-wallet companies. The findings of the study reveal that ordinary individuals were the most adversely affected. The new type of deposits called benami deposits have also come up with demonetization. With the aim of achieving financial inclusion along with making India a cashless and digital economy, efforts are required to make technology reach the bottom of the pyramid.

M. Angel Jasmine Shirley (February, 2017) has studied about the “Impact of Demonetization in India” in her research paper. In the first part of the paper, the impact over Indian economy had been explained. As per the research, the BSE SENSEX and NIFTY 50 stock had been fall near about 6% on the very next day. Moreover on the later on days, the country felt severe shortage of the cash. Moreover due to lack of cash overall production had decreased. Banks had not enough new currency for the exchange of the old notes, which has breakdown the overall economic system. Moreover in the paper impact of the demonetization over world economy also shown. The first thing that happened after demonetization was decrement in to overall consumption of commodities which results into decrease in the export-import. Moreover there was a major impact over the domestic sectors, reduction in the Government liability, farming and fishing industry, business, drop in industrial output, black money, impact over counterfeit currency, hawala, bank deposits, jewellery and real estate, IT sector etc. Findings in this sectors says that, though demonetization is a good concept to grab the black money holders, most of black money is kept in form of land, gold, real estate etc. “Not all black money is in cash, not all cash is black money”. People face too much inconveniency due to improper planning about post demonetization. Moreover for number of days they had spent their time by standing in queues. To decline over all negative impact of it, ways are to focusing over tax aspect, cash availability, and elimination of loopholes.

Methodology

I have collected the information from 13 Banks of the Davanager City. The required primary data is collected through a structured questionnaire to employees of the bank. The present study is restricted to Davanagere city.

Research design

. Research done over here is by using the Convenient Sampling Method. For the research purpose I

had focused over Davanagerel city as the population. Of which 100 sample size has been selected. Respondents are the employees of the 13 selected bank of Davanagere.

OBJECTIVE OF THE STUDY:

i) To understand the effect of demonetization in terms of positive or negative.

- ii) To identify those accounts which are highly affected due to demonetization.
- iii) To check the awareness of online banking among consumers
- iv) To understand about people's attitude for keeping their money either at home or at bank.

DATA COLLECTION:

I personally approached the respondents with the view to gather the information from them.

1. Do you think Demonetization is having a positive impact over banking sector?

In response of this question, bank employees had given following responses.

SI No	Options	No of responses
1	Highly agree	13
2	Agree	41
3	Neutral	26
4	Disagree	09
5	Highly disagree	11
Total		100

Interpretation:

By seeing the data, I can say that 54% employees are agree with the statement i.e. Positive impact of demonetization over banking sector. Whereas only 9% and 11% employees are seeing negativity in this step by giving the opinion respectively highly disagree and disagree.

2. There is an impact on online banking due to demonetization.

SI No	Options	No of responses
1	Highly agree	16
2	Agree	35
3	Neutral	28
4	Disagree	11
5	Highly disagree	10
Total		100

Interpretation:

51% employees had positive opinion about the impact on online banking. Moreover the employees who were agree or highly agree with increased use of online banking, had given reason that customers are using the mobile app also now to pay money.

3. Do you think Government has not prepared enough for the post demonetization situation?

Sl No	Options	No of responses
1	Highly agree	18
2	Agree	17
3	Neutral	19
4	Disagree	21
5	Highly disagree	25
Total		100

Interpretation:

From the above table I can say that there is a mixed opinion about the preparation of Government for the post demonetization. 46% of the employees said government done whatever was required. Where as 35% employees had opposite opinion of it.

FINDINGS:

I asked some more questions to the employees, which gave me some more findings mentioned below.

1. In a question where I asked them about highest impacted a/c of bank. 35% employees had opinion about the savings a/c, 30% had about cash deposit and withdrawal a/c and 20%, 8% and 7% respectively for Current a/c, cash credit a/c and other a/c which includes loan a/c.

2. More over I asked a question for opinion of „Demonetization- a tool for curbing the black money”. Almost 52% employees said Yes and they opined that ,demonetization is a good tool for curbing black money. Some of them had explained that Black money is not only in form of

cash. It may be in form of property, gold, land etc. If we are purely talking about black money in form of cash, then it may be a good tool.

3. Further I asked about people's behaviour either to keep money at home or bank. Almost 69% employees said that gradually people are now moving towards banks. Further they said so many ladies are there. Who came first time to bank and seen the work of bank and learned cash deposit and all other regular tasks.

LIMITATION OF THE STUDY:

Despite of having a complete analysis of the topic, this research is having some of the limitation. Those are as follows.

- i) This study covers only few banks of the Davanagere city, which may not give the complete picture of the effect of demonetization over banking sector.
- ii) Moreover demonetization is the very latest topic to study, due to that not enough research papers are available in this sector to study.
- iii) Some respondents didn't show the interest to fill the questionnaire.
- iv) Moreover this topic requires a very depth research whereas here only 100 respondents of 13 banks have taken so it may not enough for this study.

CONCLUSION:

After analyzing the data collected over here, I can say that, the demonetization has proven somehow more successful. Wind has been change. People became more conscious about online banking. Bank employees had work continuously without taking day off. Their co-operation matters a lot. Though total black money had not been grabbed by this tool, this tool proves fruitful for at least creating fear in the minds of black money holders. It was compulsory for the Government to take some steps like demonetization to decrease corruption, terrorism, black money etc.

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“IMPACT OF DEMONETISATION ON BANKING SYSTEM IN INDIA- A STUDY OF POST DEMONETISATION PERIOD”

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ABSTRACT:

In the Indian economy, the Government of India striving hard to tackle the menace of black money, corruption, duplicate or fake currency, terror funding prevailing in our country.

In order to combat the corruption, black money, inflation and to discourage a cash dependent economy, the Government of India initiated a Demonetisation policy, by banning ₹.500 and ₹.1000 currency notes, where the Banks in India were used as centre for channelling the legal tender money to all the needs of society. The Demonetisation policy has two faces i.e. both positive and negative effects on banking system in India and on the society. The old currency notes of denominations of ₹.500 and ₹.1000 is pulled back from the circulation and retired to be replaced with new currency notes of ₹.500 and ₹2000 in the Indian economy, which had a impact on the performance of Banking system in India and society.

The purpose of the study is to examine both the pros and cons of the Demonetisation and its impact on banking system in India in the post demonetisation period, with the performance parameters such as profitability, liquidity, deposits and number of accounts under Pradhan Mantri Jan Dhan Yojana. The present study is made out of the available published literature of Demonetisation and the data pertaining to the performance of banks in India.

Key words: Demonetisation, Indian Banking System, Profitability, black money, corruption.

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INTRODUCTION:

In India, the 'Black money' refers to the funds earned on the black market, on which income and other taxes have not been paid. In reality, the Black money is the money that is unaccounted for. Estimating such unaccounted money accurately is not possible. The total amount of black money deposited in foreign banks by Indians is unknown. The Indian economy and the Indian Banking System till now faced a major challenge of digital connectivity, where many people in India performing cash transaction instead of bank and plastic money transaction. The process of cash circulation is directly related to corruption in our country impacting lower classes of our society. In the sudden address to the nation, the Government of India initiated a decision and a move from traditional cash-based economy to cashless economy in order to crack down or combat black money through demonetisation. With the initiation of

Demonetisation in India, has lead to creation of innovative payment methods to the customers as digital payment solution. Demonetisation in India has set a path to make a huge boost to digitization, where Indian banks can extend its capability effectively in all financial transaction and to combat corruption, trace black money. But it is not easy to calculate the magnitude of black money in the society. So in the big move of Demonetisation in India, Indian Banks were used as centre for channelling the legal tender money to all the needs of the society.

DEMONETISATION IN INDIA:

India faced three times a big move of ‘demonetisation’ announcements in the country, in order to reduce the inefficiencies and to improve trend growth over the long run.

Sl.No	Date	Named as	Bank Notes banned	Purpose
1 st	Jan 11, 1946	“Death Blow”	₹.500, ₹.1000 & ₹.10,000	*To Curb Black Marketing
2 nd	Jan 16, 1978	An act of demonetising high denomination bank notes.	₹.1000, ₹.5000, & ₹.10,000.	* To cub Black money transaction.
3 rd	Nov 8 th , 2016	“Note Bandi” -The Great Cash Clean-up.	₹.500 and ₹.1000	*To curb black money, to combat the corruption.

DEMONETISATION – “NOTE BANDI” THE GREAT CASH CLEAN-UP:

On November 8th 2016, a third big step, “Demonetisation” was announced by Prime Minister of India, Narendra Modi, at 8pm (IST). The move declared that the use of all ₹.500 and ₹.1000 banknotes of the Mahatma Gandhi series would be invalid past midnight and announced the issuance of new ₹.500 and ₹.2000 bank notes of the Mahatma Gandhi New series in exchange for the old banknotes. This unprecedented move was initiated to curb black money i.e., to flush out counterfeit and unaccounted money and to combat the corruption and a move towards ‘digitalisation’. The government claimed that the action would curtail the shadow economy and crack down on the use of illicit and counterfeit cash to fund illegal activity and terrorism. It is found that some researchers report that, when compared with first and second demonetisation in India, the third and the present big move of Demonetisation

proves to be a effective and successful move towards curbing the black money, in the Post Demonetisation period.

REVIEW OF LITERATURE:

Manpreet Kaur (March 2017); The researcher highlights the effects of demonetisation on Indian Banking system, with special reference to e-cash or cashless payment system to study the advantages and disadvantages of demonetisation. The study finds out the alternatives of physical cash payments such as online bank transfer, e-clearing and E-KYC.

M.Prabhu, Girish.V, Mamtha.R(April 2017); The study portrays the effect of demonetisation on Banking sector and states that the biggest beneficiaries of demonetisation are 'Banks' in India. The study aims to find out positive and negative results of post demonetisation in bank operations.

Abhani Dhara.K (March 2017);The study made an attempt to investigate the impact of demonetisation on the banking sector covering a city and the data collected through questionnaire from bank employees. The study resulted with the fact that, compared to previous two demonetisation in India, the present demonetisation is successful one and have more positive impact.

G.Uppil.S, Anandhi.E and Vincilin.N (Feb.2017); The study has made an attempt to emphasize on the positive and negative impact of demonetisation on the Banking sector and suggests that banks will have to first develop a suitable distribution system to help the customers for digitalised services.

OBJECTIVES OF THE STUDY:

1. To study and understand the impact of demonetisation on banking system in India.
2. To examine the Indian Banking scenario in Post Demonetisation period.
3. To highlight the positive and negative effects of demonetisation move on Banking system in India.
4. To provide valuable suggestions with reference to study.

RESEARCH METHODOLOGY:

The research type used in the study is ‘Descriptive’ type of research. The present study is based on the secondary data derived from the various sources like; journals, books, RBI bulletins, economic survey, collected through relevant websites.

INDIAN BANKING SYSTEM IN POST DEMONETISATION:

Demonetisation, a big move shows the efficiency and the strength of the Banking system in respect of Retail boost, increase in deposits, profitability, maintenance of surplus liquidity and credit. Banks have gained deposits substantially after demonetisation which they invest for improving their profitability. Their Non Performing advances have also come down. The Banking industry, by adopting financial technology with a new scale and scope of massive, irreversible and comprehensive push on ‘going cashless’ and adopting digital path, have excelled in the Digital world.

Table 1: Deposits under PMJDY: Number of Accounts (in million)

Bank Group	As on Nov 9, 2016			As on August 1, 2017			Variation	Increase
	Rural	Urban	Total	Rural	Urban	Total	Total	(%)
Public Sector Banks	114.3	89.3	203.6	132.1	110.8	242.9	39.3	16.17
Regional Rural Banks	37.1	6.0	43.1	50.0	16.4	66.4	23.3	35.09
Private Sector Banks	5.3	3.1	8.4	15.4	13.6	29.0	20.6	71.03

Scheduled Commercial Banks	156.7	98.4	255.1	176.5	118.3	294.8	39.7	13.46
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Source: Pradhan Mantri Jan Dhan Yojana website.

Number of accounts under PMJDY increased significantly in Post Demonetisation, as there is increased variation in the total of each Bank group shown in above table.1, increase of 39.3 million (16.17%) accounts in case of PSBanks, 23.3 million accounts(35.09%) in case of RRBs, 20.6million accounts(71.03%) in case Private Banks, and 39.7 million accounts(13.46%) in case SCBs. This indicates the positive impact on Banks in India.

Table 2 : Deposits under PMJDY: Amount Mobilised (in billion)

Bank Group	As on Nov.9, 2016	As on August 1, 2017	Variation	Increase (%)
Public Sector Banks	364.0	580.5	216.5	37.2
Regional Rural Banks	76.3	130.1	53.8	41.3
Private Sector Banks	16.0	33.3	17.3	51.9
Scheduled Comm Banks	456.4	656.97	200.57	30.5

Source: Pradhan Mantri Jan Dhan Yojana website.

Deposits under PMJDY increased significantly in Post Demonetisation, as there is increased variation in the total of each Bank group shown in above table.2, increase of 216.5 billion (37.2%) accounts in case of PSBanks, 53.8 billion accounts(41.3%) in case of RRBs, 17.3 billion accounts(51.9%) in case Private Banks, and 200.57 billion accounts(30.5%) in case SCBs. This indicates the positive impact on Banks in India.

- Demonetisation impact on the Bank deposit with RBI reach a record high of ₹.4.3 trillion to 6 trillion as on September 2017.

Profitability of Banks: Banks Net profits essentially reflect the difference between earned on loans and advances and investments and interest paid on deposits and borrowings. The sharp

increase of 4.1% in the share of CASA deposits in aggregate deposits to 39.3 % (up to February 17,2017) resulted in a reduction of cost of aggregate deposits.

Table 3: Growth in Select Electronic Modes of Payment (y-o-y growth in %)

Category		Nov-2016	Feb-2017
NEFT	Volume	23.3	34.5
	Value	38.3	49.5
CTS	Volume	23.0	20.2
	Value	8.6	0.8
IMPS	Volume	89.6	150.4
	Value	135.9	184.2
NACH	Volume	30.8	-0.9
	Value	76.3	54.2

Source: RBI Bulletins and Press Releases on Electronic payment Systems- Representative Data

The recent pick-up in digital payment activity is better reflected in the sequential growth in the month of demonetisation. The pattern of digital transactions in Feb 2017 over Nov 2016 shows that the growth rates increased in both value and volume terms compared with the corresponding period of last year for most electronic modes of payment. This shows grew sharply increase in post demonetisation.

Negative Impact of Demonetisation:

- The Government's move of Demonetisation punctured the earnings of most of the banks in India. With most bank staff handling ₹.500 and ₹.1000 notes exchange with the new currency bank notes of ₹500 and ₹2000, lead to the increase in the work pressure, that may affect their efficiency level.
- Banks incurred loss of 1% discount charges from merchants on using of every card transaction lead to waived off.
- ATM charges waived off during banned note exchange and banks incurred a loss of ₹.20 in every transaction.

FINDINGS:

- With the above positive and negative facts and figures about demonetisation in India, only at the movement when the demonetisation was initiated, the people and the banks experienced a great pressure.
- The Indian Banking System, “after the dust settled” had a boom in respect of their deposits in banks under PMJDY and profitability and helped to settle down the NPA’s, in the Post Demonetisation.

SUGGESTION:

It is suggested that, there is necessary to initiate more efforts to reduce the cash circulation and reduction of threat of hacking digital technical information, and increase the number of secured non-cash transactions at the Indian Banks, in Post Demonetisation.

CONCLUSION:

In the Post Demonetisation in India, the Banks in India are burdened with npas. The cash coming into the system will reflect favourably on their balance sheet. However how much of the cash deposits remain to be seen and with the surge in liquidity available to the banks and how well they are put to be in use is a question mark. Loans will be the asset of banks and now due to huge deposits in accounts, banks have to pay certain interest to depositors and now almost all the banks reduced the interest on loan. It’s a big blow to banking sector that people have started using digital form of banking in the Post demonetisation.

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IMPACTS OF DEMONETISATION ON INDIAN ECONOMY- ISSUES & CHALLENGES

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Abstract:

India has amongst the highest level of currencies in circulation at 12.1% of GDP. Cash on hand is an estimated at around 3.2% of household assets, higher than investment in equities, or roughly around \$ 220 billion. Of this cash, 87% is in the form of Rs 500 and Rs 1,000 notes or roughly Rs 14 lakh crore (\$190 billion).A significant portion of the household cash on hand

is generated by economic transactions that are not reported to tax authorities or generated through corruption. Scrapping the higher denomination money would either result in these being brought into the system or the money just disappearing. The present paper highlights the probable consequences of this decision on various economic variables and entities.

I. Introduction

Demonetization is a generations“ memorable experience and is going to be one of the economic events of our time. Its impact is felt by every Indian citizen. Demonetization affects the economy through the liquidity side. Its effect will be a telling one because nearly 86% of currency value in circulation was withdrawn without replacing bulk of it. As a result of the withdrawal of Rs 500 and Rs 1000 notes, there occurred huge gap in the currency composition as after Rs 100; Rs 2000 is the only denomination. Absence of intermediate denominations like Rs 500 and Rs 1000 will reduce the utility of Rs 2000. Effectively, this will make Rs 2000 less useful as a transaction currency though it can be a store value denomination.

Objectives of paper:

- To study the experience of impact of demonetization in various countries in past years;
- To analyze the current the immediate impact of demonetization on Indian economy;
- To workout the probable consequences of the demonetization.

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II. Research Methodology

The paper is based on secondary data. The data has been collected from internet.

Impact of Demonetization Issues & Challenges Demontization technically is a liquidity shock; a sudden stop in terms of currency availability. It creates a situation where lack of currencies jams consumption, investment, production, employment etc. In this context, the exercise may produce following short term/long term/, consumption/investment, welfare/growth impacts on Indian economy. The intensity of demonetization effects clearly depends upon the duration of the liquidity shocks. Following are the main impacts.

1. Demonetization is not a big disaster like global banking sector crisis of 2007; but at the same time, it will act as a liquidity shock that disturbs economic activities.

2. **Liquidity crunch (short term effect):** liquidity shock means people are not able to get sufficient volume of popular denomination especially Rs 500. This currency unit is the favourable denomination in daily life. It constituted to nearly 49% of the previous currency

supply in terms of value. Higher the time required to resupply Rs 500 notes, higher will be the duration of the liquidity crunch. Current reports indicate that all security printing press can print only 2000 million units of RS 500 notes by the end of this year. Nearly 16000 mnRs 500 notes were in circulation as on end March 2016. Some portion of this were filled by the new Rs 2000 notes. Towards end of March approximately 10000 mn units will be printed and replaced. All these indicate that currency crunch will be in our economy for the next four months.

3. Welfare loss for the currency using population: Most active segments of the population who constitute the „base of the pyramid“ uses currency to meet their transactions. The daily wage earners, other labourers, small traders etc. who reside out of the formal economy uses cash frequently. These sections will lose income in the absence of liquid cash. Cash stringency will compel firms to reduce labour cost and thus reduces income to the poor working class.

There will be a trickle up effect of the liquidity chaos to the higher income people with time.

4. Consumption will be hit: When liquidity shortage strikes, it is consumption that is going to be adversely affected first.

Consumption ↓ → Production ↓ → Employment ↓ → Growth ↓ → Tax revenue ↓

5. Loss of Growth momentum- India risks its position of being the fastest growing largest economy: reduced consumption, income, investment etc. may reduce India“s GDP growth as the liquidity impact itself may last three -four months.

6. Impact on bank deposits and interest rate: Deposit in the short term may rise, but in the long term, its effect will come down. The savings with the banks are actually liquid cash people stored. It is difficult to assume that such ready cash once stored in their hands will be put into savings for a long term. They saved this money into banks just to convert the old notes into new notes. These are not voluntary savings aimed to get interest. It will be converted into active liquidity by the savers when full-fledged new currency supply take place. This means that new savings with banks is only transitory or short-term deposit. It may be encashed by the savers at the appropriate time. It is not necessary that demonetization will produce big savings in the

banking system in the medium term. Most of the savings are obtained by biggie public sector banks like the SBI. They may reduce interest rate in the short/medium term. But they can't follow it in the long term.

7. **Impact on black money:** Only a small portion of black money is actually stored in the form of cash. Usually, black income is kept in the form of physical assets like gold, land, buildings etc. Hence the amount of black money countered by demonetization depend upon the amount of black money held in the form of cash and it will be smaller than expected. But more than anything else, demonetization has a big propaganda effect. People are now much convinced about the need to fight black income. such a nationwide awareness and urge will encourage government to come out with even strong measures.

8. **Impact on counterfeit currency:** the real impact will be on counterfeit/fake currency as its circulation will be checked after this exercise.

Demonetization as a cleaning exercise may produce several good things in the economy. At the same time, it creates unavoidable income and welfare losses to the poor sections of the society who gets income based on their daily work and those who doesn't have the digital transaction culture. Overall economic activies will be dampened in the short term. But the unmeasurable benefits of having more transparency and reduced volume of black money activities can be pointed as long term benefits.

III. Positive Effects Of Demonetization?

In what could be termed as the mother of all reforms, Prime Minister Modi's demonetisation move will have far reaching implications. This is not to dispute that the transformative step has brought some hardship for the citizens, but those are temporary and will blow over soon. For the larger benefit of the nation, we the citizens can bear such hiccups with a smile. After all, this is how we as citizens can contribute in policy making and nation building. While bank employees are working overtime to make Modi's ambitious demonetisation drive a success, let's discuss its many-fold impacts.

1. **Black money:** At one stroke the Prime Minister has choked the supply of black money stacked inside the country. Of the Rs 17 lakh crore of total currency in circulation in the country, black money is estimated at mind-boggling Rs 3 lakh crore. Black money is nothing but a plunder of the nation. Black money operators run a parallel economy which shakes the very foundation of the Indian economy. With Modi's demonetisation move, all domestic black money will either be deposited into the banks with heavy penalty or be simply destroyed.

2. **Economy:** Demonetisation will have a huge resultant effect on the Indian economy. The clean-up of illegal cash will help turn around the economy. First, it will bring more borrowings to the exchequer, improve inflation outlook and increase India's gross domestic product (GDP). Second, it will revive investment opportunities and give a fillip to infrastructure and the manufacturing sector. Third, it will help reduce interest rates and lower income tax rate.

3. **Note bank politics:** In the run up to the crucial assembly elections in Uttar Pradesh, Punjab, Goa and Uttarakhand, Prime Minister Modi's demonetisation announcement has come as a shock and awe for the political parties and politicians for whom black money is a lifeline. The pulling out of the old Rs 500 and Rs 1,000 currency notes will help make the election process clean and transparent. But it has brought tough times for the political parties and politicians who believe in the idea of purchasing votes in exchange for notes. That is precisely the reason a rainbow coalition of a galaxy of regional parties and the Congress is building up against Modi, because their political interests are badly hurt.

4. **Real estate cleansing:** It is said that real estate is an industry built on black money. The extent of black money floating around in the sector is huge. According to an estimate at least 40 per cent of real estate transactions in Delhi-NCR are in black. Modi's demonetisation move will curtail the flow of black money into the real estate sector. This will help in making the much needed correction in the sector. The impact: An unexpected dip in land and property prices.

5. **Hawala transactions:** Demonetisation has crippled the hawala rackets. Hawala is a method of transferring money without any actual money movement. Hawala route is used as a means to facilitate money laundering and terror financing. Hawala rackets run again on black money. With black money suddenly being wiped out of the market, thanks to demonetisation, hawala operations have come to a grinding halt. According to an India Today report, one of the hawala operators in Mumbai has destroyed currency notes worth about Rs 500 crores.

6. **Counterfeit currency:** Demonetisation has dealt a death blow to the counterfeit Indian currency syndicate operating both inside and outside the country. Counterfeit currency seriously devalues the real worth of Indian currency. A study conducted by Indian Statistical Institute, Kolkata on behalf of the National Investigation Agency (NIA) suggests that fake Indian currency notes (FICN) amounting to Rs 400 crore are in circulation in the country at any given point of time and around Rs 70 crore fake notes are pumped into Indian economy every year. The estimation is based on recovery and seizure made by various agencies. But the actual figure could be much larger. A One India report, quoting an Intelligence Bureau dossier, says fake Indian currency worth Rs 12 lakh crore has pumped into Indian financial system over the years. Needless to say that most of the fake currencies circulated in India are of Rs 500 and Rs 1000 denominations. It is also pertinent to mention that the fake currency floating inside the Indian financial system is not counted within the Rs 17 lakh crore of total currency in circulation in the country.

This is an open secret that Pakistan has been printing fake Indian currency at its government printing press in Quetta and its security press in Karachi. The enemy nation funnels the counterfeit currency through the frontier at Jammu & Kashmir and via India's porous border with Bangladesh and Nepal. With Prime Minister Modi's decision to pull out the old Rs 500 and Rs 1,000 notes and replace them with new Rs 500 and Rs 2,000 series has completely stalled the circulation of counterfeit Indian currency. Experts say the new currency notes have come with advanced security features which are almost impossible to replicate. So Pakistan has no option but to shut shops of its fake Indian currency.

7. **Terror financing:** Terror financing is sourced through counterfeit currency and hawala transactions.

This is how terror financing works. Fake currency circulation is routed through a multi-layered network of hawala operators which are closely linked to satta (gambling) and smuggling of drugs, opium and arms. Indirectly, they all end up financing terrorism. In addition, the terrorists collect huge donations and then route the money through hawala transactions. With the circulation of counterfeit Indian currency completely stalled and hawala transactions stopped, all windows for terror financing are closed.

8. **Maoism:** Maoist sympathisers call Modi's demonetisation move an "undeclared financial emergency". There are reasons to it. Demonetisation has hit the Maoists and their movement hard.

Black money is the oxygen for Maoists. According to an estimate, Maoists manage to raise Rs 300 to Rs 400 crore annually through donations, levy and extortions. The illicit money is used to purchase arms and ammunition, food and medicine and daily essentials, apart from distributing it among the ranks and the cadre. Police sources in both Chhattisgarh and Odisha have told the writer that the Maoists have stashed old high denomination notes to the tune of over Rs 10,000 crore at their dumps in the dense jungles of Odisha- Chattisgarh boarder. No wonder, with Modi's demonetisation drive, all those illegal money are reduced to paper scrap. Maoists are in a state of coma and Maoist activities see a crippling blow. Ever since the demonetisation announcement was made, no major violence was reported from the Maoist infested states like Chhattisgarh, Odisha, Andhra Pradesh and Telangana.

9. **Kashmir unrest:** The four-month-long unrest in Kashmir valley is on a backburner, thanks to demonetisation. No stone pelting on security forces has been reported in Kashmir ever since the demonetisation announcement was made. An intelligence estimate suggests that Pakistan sends Rs 1,000 crore annually to the separatists for fuelling unrest in Kashmir. The money is transferred through hawala route. With hawala transactions completely choked up, the

separatists are now clueless. It won't be wrong to say that "stone pelter" Modi completely shattered the Kashmir unrest with his stone called demonetisation.

10. North-East insurgency: Demonetisation has severely affected the multiple militant groups operating in the North-East.

According to intelligence estimate the north-eastern insurgent groups together have a corpus of Rs 400 crore annually. The insurgents source their funding in two ways. They raise funds through levy and extortions like the Maoists do. But unlike Maoists, the leaders of North-East militant outfits do not live in the jungle. Their English speaking high ranking leaders run operations from their dens in Myanmar, Bangladesh and Nepal. From there they also transfer huge illegal money via hawala route to their cadre for running the militancy. With the extortion money stopped completely in the absence of cash inflow and hawala operations coming to a complete halt, all activities of North-East militants have shuttered down.

IV. The Short-Term Vs. The Longer-Term Implications

The Short-term Impacts: There will be a disruption in the current liquidity situation as households are likely to get affected by the note exchange terms laid by the government. Though clarity is unfolding on this, commodity transactions and general cash market transactions are likely to feel an immediate impact. Unorganized sector proceedings, including small trade market activities, will remain volatile in the short-term. Roadside vendors, cab drivers, *kirana* stores, etc., have already stopped accepting Rs 500 and Rs 1,000 notes. It is important to note that a significant percentage of the Indian workforce is employed in this sector, which is likely to be affected by immediate liquidity issues. Overall, negative impact on disposable income is expected along with likely disruption in the consumption patterns of the general populace. It is estimated that there will be a negative GDP impact in the current quarter as consumption gets a shock in the immediate term. However, quantum and degree of this impact cannot be ascertained at this time. **The Longer-term Implications:** This essentially represents a change in regime for the real and financial economy. Domestically, there could be some turmoil as the effect will be disproportionately felt by the lower and upper income classes.

Internationally, the government is likely to get thumbs up for the move and more countries could potentially see this as a viable option to curb black money and stem illegal financial activity. Last, though this move by the government may not be a first, having being tried by earlier governments as a tool to fight corruption. Such an action achieves larger significance for a globally connected India as it shows boldness in tackling an issue which has remained a thorn in the growth success story of this generation. **The Sectoral Impacts** While sectors with linkages to the unorganized economy are likely to be affected, technology and financial services are expected to gain in the medium to long term. On a sectoral basis, the commodities and agricultural sector, including the market for consumer durables and non-durables is expected to feel the heat. In the short to medium-term, large denomination purchases will likely be made via electronic purchases rather than through brick and mortar outlets. This will impact the retail sector adversely. The real estate sector is likely to see a significant negative impact in the medium- to long-term, particularly in the repurchase market. There are expectations of a revaluation of current real estate transactions across the board representing possible losses to players in the sector. The luxury goods market is also likely to get affected as this move represents an erosion of real wealth to a large Areas of sub-sectoral impact will be felt in luxury cars, SUVs, gems, jewellery, gold and high-end branded products. The real estate sector is likely to see a significant negative impact in the medium- to long-term, particularly in the repurchase market. There are expectations of a revaluation of current real estate transactions across the board representing possible losses to players in the sector. The luxury goods market is also likely to get affected as this move represents an erosion of real wealth to a large number of people. On the positive side, there is likely to a reset of spending patterns as this move represents indirectly a significant push towards a cashless economy. Businesses in the fin-tech sector, including payment banks, mobile wallets, electronic transfer providers, etc., are expected to see gains.

V. Conclusion

If the money disappears, as some hoarders would not like to be seen with their cash pile, the economy will not benefit. On the other hand if the money finds its way in the economy it could have a meaningful impact. However experiences from different countries shows that the move was one of the series that failed to fix a debt-burdened and inflation-ridden economy.

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FORGET WHAT HURT YOU,
BUT NEVER FORGET WHAT
IT TAUGHT YOU.



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