



# **ROOTS**

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There are many practical reasons to publish the research articles. We don't really understand what we have discovered until we write it up, when we submit an article for publication, we get back reviews and criticisms from colleagues and readers which undoubtedly can often be very helpful and sometime point our mistakes or shortcomings in the applied logic therein. When we share the results of our efforts through publication, we become a part of the scientific community. We benefit from the exchange of ideas and learn about what others have already done. We can often establish valuable collaborations with people on the other side of the planet even without seeing them. If everybody kept their results and ideas secret, the progress of science would slow to a crawl. If we want to benefit from the work others have done before we, it's only fair that we contribute our bit too. The process of research publication creates a mindset that is vital for research progress.

The scope of the Journal is to facilitate the researchers, scholars, resource persons and practitioners to come on a strong potential platform and to share their findings of the research with the rest of the world. So that intellectual decisions can be instilled to enrich societies as a whole with attitude of magnanimity and openness.

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## EDITORIAL NOTE

It is with deep satisfaction that I write the Editor's Note to the exclusive journal for the National Seminar on Demonetisation- Prospects and Challenges jointly organized by the Department of Commerce and Department of Economics & Centre for Research in Economics.

The Department of Commerce aims in providing high quality commerce education to enable the students to become qualified professionals such as Chartered Accountants, Cost Accountants, Company Secretaries, Managers and Entrepreneurs. It also facilitates the faculties and students to enrich the knowledge on emerging topics on commerce and management.

In the process of enrichment of knowledge in relevant fields, the Department of Commerce continues a tradition of bringing together the Researchers, Academics and Professionals from various institutions in different parts of our country. The National Seminar, particularly encourages the interaction of corporate, professionals, industrialists, research scholars and students and developing academics to present and discuss the issues pertaining to demonetization.

It is imperative duty to bring takeaways of the Seminar, the editorial board has carefully reviewed, edited and sythesised all the papers. Hopefully the edited book would be useful to reader, research scholars by enriching the knowledge and the collections of research articles will be an impetus to stimulate further study and research in all socially relevant issues.

Best wishes.

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## IMPACT OF DEMONETIZATION ON INDIAN ECONOMY

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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.*

### Introduction

Demonetization for us means that Reserve Bank of India has withdrawn the old Rs 500 and Rs 1000 notes as an official mode of payment. Demonetization is the act of stripping a currency unit of its status as legal tender. On 28 October 2016, the total currency in circulation in India was Rs. 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 Rs.16.42 lakh crore (US\$240 billion) of which nearly 86% (i.e. Rs. 14.18 lakh crore (US\$210 billion)) was 500 and 1000 rupee notes. In terms of volume, the report stated that 24% (i.e. 2,203 crore) of the total 9,026.6 crore 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 rupee will remain legal tender and will remain unaffected by this decision.

This measure has been taken by the PM 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 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;
- The move is estimated to scoop out more than more than Rs 5 lakh crore black money from the economy.
- Similar measures have been taken in the past. In January 1946, currency notes of 1000 and 10,000 rupees were withdrawn and new notes of 1000, 5000 and 10,000 rupees were introduced in 1954. The Janata Party coalition government had again demonetized notes of 1000, 5000 and 10,000 rupees on 16 January 1978 as a means to curb forgery and black money.

### Objectives of the 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.

### Research Methodology

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

### Procedure for Exchange Old Notes

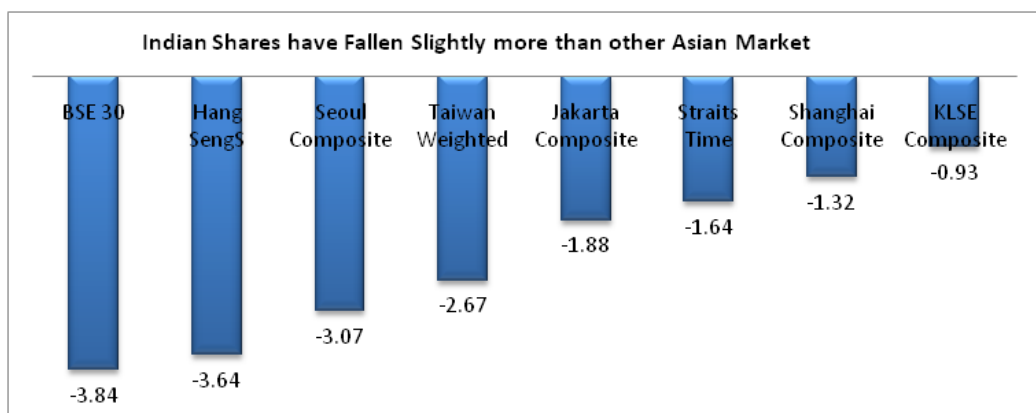
The Reserve Bank of India laid down a detailed procedure for the exchange of the Demonetized banknotes with new Rs.500 and Rs.2000 banknotes of the Mahatma Gandhi New Series and Rs.100 banknotes of the preceding Mahatma Gandhi Series. Following are the key points:

- Citizens will have until 30 December 2016 to tender their old banknotes at any office of the RBI or any bank branch and credit the value into their respective bank accounts.
- Cash withdrawals from bank accounts will be restricted to Rs.10, 000 per day and Rs.20,000 per week from 9 November 2016 till 24 November 2016.
- For immediate cash needs, the old banknotes of value up to Rs.4000 per person can be exchanged for the new

Rs.500 and Rs.2000 banknotes as well as Rs.100 banknotes over the counter of bank branches from 10 November 2016 by filling up a requisition form along with a valid ID proof.

- All ATMs will dispense bank notes of only 50 and 100 rupee denominations.

Banks will provide all cash withdrawal transactions at their ATMs free of cost to their customers till 30 December 2016. Cash withdrawals from ATMs will be restricted to Rs.2000 per day per card up to 18 November 2016 and the limits will be raised to Rs.4000 per day per card from 19 November 2016. However, exceptions were given to petrol pumps, CNG stations, government hospitals, train and airline booking stations, state - government recognized dairies, ration shops, and crematoriums to accept the 500 and 1000 rupee notes until 14 November. International airports were also instructed to facilitate an exchange of notes amounting to a total value of Rs.5, 000 (US\$74) for foreign tourists and out bound passengers.



### Comparative Analysis of Impact on Indian Stock Market and Asian Stock Market in Present Scenario

At the time of writing, the Indian markets have fallen a bit more than other emerging markets in Asia. The S&P BSE Sensex is down 3.8%, which is more than more or less all other Asian emerging markets. The possibility of a

Donald Trump win is keeping markets on the edge worldwide. The extra fall in the Indian markets compared to others could be due to many factors, including high valuations, but it's very likely that the demonetization effect is mainly responsible for the fall.

## The Probable Consequences of the Demonetisation

The following likely impacts on the economy will be observed if a substantial portion of the cash is either reported or is consumed in the economy.

- **Tax:** 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. Philips Capital in a report says that the extent of parallel 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 impacts 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 banks will be flushed.
- **Liquidity:** Movement of goods and money will be hit in the short. 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.
- **GST:** Demonetization comes at an important as the country heads to a new tax regime with the implementation of GST. Demonetization would increase the tax net and along with GST result in reduction of black money generation. Along with GST, Demonetization will lead to a higher tax/GDP ratio, says CLSA.
- **Financial Assets:** As money lying idle comes in the main economy it would move to higher yielding and liquid assets. Money is likely to move to financial assets from gold, precious metals, real estate and plain cash.
- **Effect on parallel economy:** The removal of these 500 and 1000 notes and replacement of the same with new 500 and 2000 Rupee Notes is expected to - 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, - Temporarily stall the circulation of large volume of counterfeit currency and - curb the funding for anti - social elements like smuggling, terrorism, espionage, etc.
- **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.
- **Effect on Demand:** The overall demand is expected to be affected to an extent. Real Estate and Property, Gold and luxury goods and Automobiles (only to a certain limit) 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.
- **Effect on Prices:** The Price level is expected to be lowered due to moderation from demand side. This demand driven fall in prices could be understood as follows:
  - **Consumer goods:** Prices are expected to fall only marginally due to moderation in demand as use of cards and cheques would compensate for some purchases.
  - **Real Estate and Property:** Prices in this sector are largely expected to fall, especially for sales of properties where

major part of the transaction is cash based, rather than based on banks transfer or cheque transactions. This decision along with real estate regulatory law, GST and Real Estate Investment Trusts would further improve transparency and increase investor confidence in the real estate market.

- **Effect on Various Economic Entities:** With cash transaction lowering in the short run, until the new notes are spread widely into circulation, certain sections of the society could face short term disruptions in facilitation of their transactions. These sections are:
  - Agriculture and related sector
  - Small traders
  - SME
  - Services Sector
  - Households
  - Political Parties
  - Professionals like doctor, carpenter, utility service providers, etc
  - Retail outlets
  - Economics I Economic consequences of demonetization of 500 and 1000 Rupee Notes 3 The nature, frequency and amounts of the commercial transactions involved with these sections of the economy necessitate cash transactions on more frequent basis. Thus, these segments are expected to have the most significant impact post this demonetization process and the introduction of new notes in circulation.

### 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.

<i><b>Positive Impacts</b></i>	<i><b>Negative Impacts</b></i>
<b>E- commerce and Fintech</b>	
1. Payment gateways	Agriculture
2. Cards	Luxury goods
3. Mobile wallets	Real Estate
4. Online Retail	Commodities
5. Net and Payment banks	Traditional Retail
6. E-Market place	Consumer durables
	Consumer non durables

### 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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## DEMONETISATION IN RURAL AREA

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### Abstract

*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. The chaos was created in every strata of the society whether upper, middle or lower. Where some welcomed the move as it was seen for curbing black money, many are suffering by this movement. But the supreme sufferers of this move were the informal sector of Indian economy, where cashless transactions are minimal. 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(International Conference of Labour Statistics (2003), rural populations and the urban poor and middle class. This paper aimed at reviewing the general implications of demonetization on rural people.*

**Keywords:** *Demonetization, informal sectors, rural population.*

### Introduction

The Government has to find new, additional ways to inject cash liquidity in the rural economy, like immediately setting up camps in villages for the proper exchange of old currency. The Government can very well use the infrastructure of the cooperative banks. The recent announcement of Demonetisation by the Modi Government has no doubt started a revolution of clean-up in the country. But since it has come at such a crucial time for the farmers, it is likely to affect them more than anyone else. Farmers in India generally deal in cash, and this present period, which is the onset for the Rabi season, is creating a lot of panic among them since farmers usually get only 15-20 days to plant their crops. Therefore, the cash crunch in rural India has to be sorted out pretty quickly by the Government. The Government has to make sure that the cash reaches the farmers quickly than to other sections of society. The Modi Government, apprehending the situation, has in fact taken a couple of decisions to ease the money flow to farmers, like allowing them to purchase seeds with the old currency and also letting them withdraw upto Rs25,000 from their bank accounts.

But considering the huge cash shortage with banks, especially in rural India, most banks are not allowing such withdrawals for want of funds. This has further compounded the crisis period for the farmers.

Demonetisation is likely to effect the rural and farming economy since this is considered to be the busiest time for farmers in relation to the cash transactions, as they will urgently require cash to plough their fields, to purchase fertiliser, to hire machinery and labour, and make arrangements for water, purchase of diesel etc, apart from buying seeds from the market. For example, for sugarcane growers, the crushing season has just started and the farmers don't have cash to harvest the canes, pay for labour and transport the cane to the sugar mills.

Likewise, when farmers go to the local *mandis* to sell their produce, it will be difficult to find a cash buyer; and by chance if they find one, it is very unlikely that they will get the appropriate price of their crops. They will simply have to sell on credit. The farmers who had already done their ploughing and irrigation before the demonetisation, are finding it difficult to keep the soil moist since they don't have adequate cash to move further. And this

delay in sowing can greatly affect the yield and is also likely to expose the crops to number of vulnerable diseases, which in turn will make it difficult for farmers to recover their cost of cultivation.

For example, a delay in sowing of wheat can drastically decrease the wheat yield to 1.5 quintals per acre per week. This scenario is now urgently demanding that the Government take additional steps to help the farmers.

The banking penetration in rural India is quite low and the farmers are finding it difficult to tackle this bold move by the Modi Government. Farmers live miles away from their nearest bank branch, and the number of ATMs in the rural regions is also negligible, as the banks generally focus on urban areas for their banking business — which has made the situation a little more difficult for farmers in this crucial period

### **Demonetization -- Definition**

Demonetization is the act of Banning /taking back of 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. 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 opposite of demonetization is remonetization where a form of payment is restored as legal tender.

### **Impacts of demonetization**

- It will push up the demand for gold as safe store of wealth.
- This would result in gold imports and it will impact balance of payments.
- It will push up the demand for dollars as safe store of wealth.
- People would be happy to pay the charges/ commission for converting black money

into gold and then reconverting it into rupees.

- The same stands for dollars of other foreign currencies.
- It will be a big boost for e-wallets.
- E-wallet is an online prepaid account where one can stock money, to be used when required. You can pass on the benefits of your e-wallet to your friends and family as well.
- It will be a big boost for credit cards.
- India is still a vastly un-banked country.
- Many among the poor do not have bank accounts.
- To expect them to use plastic currency is unrealistic.

In hinterlands of India modern banking system is rudimentary so it will be a tough situation for small traders.

### **Effects in Rural area**

Since 8 November 2016, when Prime Minister Narendra Modi announced that notes of Rs 500 and Rs 1,000 would no longer be legal tender, the government has been steadfast in its defence of the policy, which catapulted the nation into chaos. However, several economists and social activists have questioned the rationale behind the decision and criticised it. One such activist is Aruna Roy, the founder of the Mazdoor Kisan Shakti Sangathan. The MKSS is a grassroots organisation in Rajasthan, which was formed in 1990. Since its inception, it has been working with the rural poor in Rajasthan on issues such as minimum wages and organising jan sunwais, or public hearings, of farmers, daily wage labourers and government officials. The organisation, with Roy at its helm, also drove the successful movement for the need to access public records that led to the enactment of the Right to Information Act in 2005. On 17<sup>th</sup> November, a group of social activists, economists, and academicians, including Roy, *issued a statement* raising several questions about the demonetisation policy. In the statement, the collective deemed the

introduction of the 2,000-rupee note as “inexplicable,” given the government’s rhetoric about high-value currency being used to hoard black money. They condemned the government for not taking into account the fact that a significant portion of the Indian population *does not have access to the banking system*. The signatories also pointed out that the distribution of banks in India is highly skewed, with a third of all bank branches being spread out in only 60 tier-1 and tier-2 cities and towns. The statement emphasised that people in rural India, who often suffer from inadequate information, have become the worst victims of demonetisation.

### Government Measures

1. The government advised banks and the National Payment Corporation of India (NPCI) to waive charges on e-transactions till December 31. Following this, NPCI waived till year-end the switching fee for all RuPay issuing and acquiring member banks for point of sales and e-commerce transactions.
2. The limit for various categories of withdrawals has been raised, exemptions extended till November 24, and micro-ATMs will be deployed in rural and semi-urban centres.
3. The cash-holding limit for 120,000 banking correspondents, who form a crucial link in the rural monetary chain, has been increased to Rs 50,000 and banks have been given flexibility to increase this limit on a case-to-case basis. It has been also decided to provide cash multiple times to the banking correspondents. Supply of cash to 130,000 post offices would also be enhanced.
4. Banks may deploy their Micro ATMs (Bala Mitras, etc) near village Panchayat Offices, Police Stations/ Police and military Outposts, Government Departments, offices of Public Sector Units, Petrol Pumps and other similar secure locations.
5. For providing exchange / deposit/ withdrawal facility to people residing in remote/ unbanked areas, banks may consider using mobile vans.
6. Banks should, in a camp mode, open accounts for Tea/coffee and other plantation workers, employees of Sugar cooperatives, dairy farms and such other worker groups with concentrated payment locations so that they may be better served in terms of deposit into accounts and withdrawal there from.
7. Rail ticket bookings allowed with old nates till 24 November, tolls on highways have been suspended till 18 November and old currency can still be used to pay utility bills till 24 November.
8. Bankers said work on recalibration of ATMs for new currency notes had begun but it would take more than a week to cover a substantial part of the network. Cash management companies reported filling up ATMs had been affected because bank staff were under pressure at branches. It is taking far longer to get money for loading and carrying to ATMs. Only one-third of the usual number of ATMs had been filled in last two days.
9. Some banks have intensified use of micro-ATMs in remote areas. IDFC Bank has Aadhaar - enabled interoperable micro-ATMs at 1,000 unbanked locations in kirana stores, chemist shops and panchayat offices.
10. Business entities having Current Accounts which are operational for last three months or more will be allowed to draw Rs 50,000 per week. This can be done in a single transaction or multiple transactions.
11. Parking at all Indian airports will be free until November 21.
12. Banks shall waive levy of ATM charges for all transactions (inclusive of both financial and non-financial transactions) by savings bank customers done at their own banks’ ATMs as well as at other banks’

ATMs, irrespective of the number of transactions during the month. his waiver is applicable on transactions done at ATMs from November 10, 2016 till December 30, 2016, subject to review.

### **Conclusion**

There is a nice article in Times of India by famous writer Chetan Bhagat. This article sums up the demonetisation very beautifully. We Indians have no choice to believe the intent of the politicians, instead of looking at implementation part. I may add to this, we as a democratic country going through a very volatile phase. Some people are becoming fan of politicians, which is very dangerous. In this process we loss the very important principle of asking questions in a democratic environment.

Surely this demonetisation will help eradicate the 5% of the Black Economy which is put in cash. Which might push the bank to decrease interest rate by 0.5% in feb/mar. Also we might move towards digital economy. But looking at some digital economy like Brazil or USA, there is no guarantee that it will put brake to corruption. Whereas Japan considered as less corrupted country even it's cash economy is 20% of it's GDP. So until unless people of our country stops becoming fan of politicians nothing going to change.

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## A DRIVE TOWARDS CASHLESS SOCIETY THROUGH FINANCIAL INCLUSION

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### Abstract

*In Nov. 8<sup>th</sup> 2016, India was getting the Second Independence from our own Indian Public. Because, the people are forced to change the money by remitting Old Currency Notes in the bank. In a way, banks are getting the highest range of deposits and the lending rates may come down. The people are encouraged the Cashless transactions of their own. Cashless transaction leads to speedy action of getting goods and services. 13% of card holders have used their Cashless transactions only of demonetization. Steps in this regard is solicited.*

### Financial Inclusion

*"The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost"*

- *The Committee on Financial Inclusion, 2008*  
(Dr. C.Rengarajan, Chairman)

### Introduction

Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. It is the buzz word today. Every second day we find a headline in newspaper related to financial inclusion, RBI and financial ministry are very keen towards financial inclusion. Even finance ministry has announced to launch financial inclusion index this year.

Basically financial inclusion means providing access to financial services such as payments, savings insurance etc. At an affordable cost, to low income group and weaker section of society, who are not using banking and financial services through organized Chennai. Bank act as mobilize of public saving. They channelize the funds in organized way the people who have surplus with them, put their money with banks and bank lend these surpluses to those who need it.

Bank also facilitate people to route their business and financial transactions through

banks, which helps in efficient management and flow of funds throughout the country.

### Objectives of the Study

1. To know the strategies adopted by the banking sector for financial inclusion.
2. To identify the obstacles to implement the strategies of financial inclusion.

### Scope of Study

There are various types of banks which operate in our country to meet the financial requirements of different categories of people. On the basis of function, the bank can be classified into five categories Viz., Central Bank, Commercial Bank, Development Bank, Co-operative Bank and Specialized Banks. The study has focused only the Commercial Banks located in Tirunelveli District.

### Methodology

The data required for the study was collected from both primary and secondary sources. The primary data was collected from the banks using a structured questionnaire. The secondary data was collected from the published journals, books and various websites. The samples were selected by as ministering convenience sampling technique. The total numbers of samples were 50. The study was conducted among the banks in Tirunelveli district. A pilot study was administered before going for data collection. After the pilot study, Some necessary changes were made in the

questionnaire. The various statistical tools used to analyze the primary data were percentage analysis, mean score analysis.

**Table 1 Strategies taken for financial inclusion**

Service	Yes	No
No Frills Account	40 (80%)	10 (20%)
Core Banking	42 (84%)	08 (16%)
E-Banking	30 (60%)	20 (40%)
Mobile Banking	30 (60%)	20 (40%)
Issue of Kisan Credit Card	25 (50%)	25 (50%)
Biometric ATM	-	50 (100%)
Bank Assurance	35 (70%)	15 (30%)
Microfinance	40 (80%)	10 (20%)
Ties up with NGOs	30 (60%)	20 (20%)
Advt.for Financial Inclusion	20 (40%)	30 (60%)
40 (80% Business Correspondent Model (Smart Card system)	15 (30%)	35 (70%)
Financial Literary And Counselling Centre (FLCC)	10 (20%)	40 (80%)

Table 1:- depicts out of 50 banks 80% of the banks have offered no frills account. 70% of the banks have offered Bank assurance, and the remaining 40% of the banks have not offered core banking service. 60% of the banks have offered e-banking, mobile banking service and the remaining 40% of the banks have not issued Kisan credit card and to the farmers. No bank has offered Biometric ATM facility to the customers. 80% of the banks have offered microfinance and the remaining 20% of the banks have not offered microfinance to the vulnerable people. 60% of the banks have not given advertisement for financial inclusion and the left over 40% of the banks have given advertisement for financial inclusion, 70% of the banks have not preferred business. Correspondent and the rest 30% of the banks have preferred business correspondent. 80% of the banks have not established financial literacy and counseling centre and the remaining 20% of the banks have established financial literacy and counseling center to educate the custom.

**Table 2 Obstacles involved in Financial inclusion**

Source: Primary Data

Problem	HA	A	DA	HAD	Mean Score
Improper Repayment	37	11	-	2	3.44
Need Addl. Employees	27	12	11	-	3.32
Consumes More Time	31	14	5	-	3.22
Difficult to Canvass	26	18	6	-	3.24
Heavy Work Load	30	15	5	-	3.18
Requires High Cost	28	15	5	2	3.14
Low Consumer Awareness	14	29	7	-	3.36

Table 2: Shows the compliance of banks on various issues faced by them. As per the above table, it is noted that few problems were highly agreed and a few were agreed by the banks. The banks highly agreed on an improper repayment (3.44)the need for additional employees (3.32) consumers (3.24). The banks also agreed on low consumer awareness (3.36). Hence, the main problem associated with financial inclusion is improper repayment.

## Results and Discussion

The findings which arrived from the analysis on banks' Role in Financial inclusion are presented below. The Profile of the Respondents: The respondents of 58% were public banks, 60% of the banks were operating more than 10 years. Target for Financial inclusion: Majority (80%) of the banks had targeted for financial inclusion. Getting refinance for financial inclusion: Majority (75%) of the banks had not received refinance for financial inclusion. Inducement for financial inclusion: All the banks had been induced by another institution to adopt financial inclusion. The majority (70%) of the banks was induced by the Reserve Bank of India to adopt financial inclusion. Conducting financial inclusion campaign : Majority (70%) of the banks had

conducted financial inclusion campaigns to turn unbankable into bankable. Focused people for financial inclusion: 60% of the banks had focused rural people for financial inclusion. Reason for financial exclusion: 66% of the banks had stated that the reason for financial exclusion was literacy. Perception towards financial inclusion: 64% of the banks felt that adoption of financial inclusion was neither easy nor difficult. Expected assistance from the government: 54% of the banks were expecting advertisement from the government for financial inclusion.

### **Suggestions**

The following are the suggestions recommended from this study to various beneficiaries like Banks and the Government. Suggestions for the Banks: The banks should offer all forms in the regional language of the customers. The banks must create awareness among the people concerning the Significance of banking services by advertisement and financial inclusion campaign. ATMs are one of the most cost effective ways of reaching the rural poor. This new, Biometric ATMs have to be established to assist the customers who are unable to memorize PIN. The banks should constitute Grievance Redresses Machinery to redress the customer's discontent promptly. And also it should offer no frills account in order to turn unbankable into bankable.

The banks should appoint a business correspondent to disseminate its service to the unreached area. Technology can play a major role in reducing the cost of availing financial services. Thus, banks should adopt advanced technology to open up new avenues for service delivery. Suggestions to the Government: The Government should include financial literacy in

the curriculum of schools and colleges. The government should also raise the Financial inclusion Fund and a Financial inclusion Technology, Fund to reach banking services to the unbanked areas. The government should pay all the social security payments through the bank account of the beneficiary.

### **Conclusion**

Financial inclusion becomes a major prerequisite to poverty alleviation. Reserve Bank of India's vision for 2020 is to open nearly 600million new customers accounts and service them through a variety of channels by leveraging on information technology. However, the improper repayment need for additional workforce, time, consumption, high cost and illiteracy are continuing to be a road block to financial inclusion in many areas. Consequently, many banks are not adopting fully fledged financial inclusion plan, The banks should step up to open when all these problems and to disseminate its service to remote areas. The banks should encourage the people to access banking services by ways of no frills account, financial inclusion campaign and business correspondent. The payment should encourage the banks to adopt financial inclusion by means of financial).



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## IMPACT OF DEMONETIZATION IN FINANCIAL INCLUSION IN INDIA

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### Abstract

*Financial inclusion has come up as a key measure for achieving inclusive growth. The government of India has taken up several measures for financial inclusion. Although the degree of financial inclusion has improved still India has a long way to go to become digitally financially included. Indian government adopted demonetization in November 2016 to tackle with black money and make India a cashless digital economy. With the implementation of demonetization and considering the country's agenda to improve financial inclusion, this paper makes an attempt to study the effect of demonetization on financial inclusion. The effect of demonetization has been 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 the ordinary individuals were the most 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.*

**Keywords:** Cashless Economy, Demonetization, Digital Economy, Financial Inclusion.

### Introduction

The concept of inclusive growth has gained a lot of momentum in India. It means that all sections of society contribute to benefit from economic growth of the country. Financial inclusion has come up as a key measure for achieving inclusive growth. Financial inclusion is defined as "the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated mainstream institutional players" It aims to take banking services to the doorstep of everyone to meet their entire savings, credit and remittance needs initially, and needs for all other financial products and services subsequently. When the poorest of the poor have access to credit and savings facilities, this translates to their financial security. They can grow larger businesses, manage consumption and household expenses better and plan for shocks. The standard of living improves and poverty falls, allowing people to contribute more to the economy as well.

### Demonetization in India

Indian currencies with denomination 500 and 1000 have ceased to be the medium of

exchange from the midnight of 8th November 2016. This demonetisation move is implemented as a tool to measure the stock of black money hoarded in these high denomination currencies, and to curb terrorist activities in the country. The government aims to bring the unaccounted money back to the formal banking sector by allowing limited exchange and unlimited deposit of old notes in bank accounts till the end of 2016.

However, the biggest problem is that the distinction between unaccounted cash and black money is lost. Money that is derived from illegal activity is harmful, but money circulated in small businesses only adds to economic activity. Indian economy is heavily dependent on cash. Inadequacy of bank branches is one primary reason why cash dominates especially among small businesses. Every bank branch in a rural and semi-urban centre caters to more than double the number of people in an urban and metropolitan centre. According to December 2015 Reserve Bank of India Report, each rural and semi-urban bank branch serves 12,863 people compared with an urban and metropolitan branch which serves just 5,351 people.

### **Effects of Demonetization on Financial Inclusion in India**

The demonetization has created a tremendous impetus toward greater financial inclusion. It has operationalized the Jan-Dhan bank accounts, with around 210 billion rupees(\$3 billion) in deposits. However, it brought in a new concept called Benami Deposits. The Jan Dhan bank accounts opened for the poorest of poor are now swelling with cash since demonetization. This implies that these accounts have become holders of somebody's account i.e. the poor have been used by those with hordes of unaccounted for money to park their funds. In detail, the effect of demonetization on the process of financial inclusion has been studied on various sections of the society which are the participants in the financial inclusion drive.

### **Ordinary Individual**

The common man has had to bear the economic hardship as 90 percent of all transactions are paid in cash. Millions of people are crowding the banks and queuing outside ATM centers to deposit their cash, revealing that India has a long way to go before it fully transitions into a digital financial economy. In spite of expanded digital access to bank accounts, a very small percentage of the population has been able to operate without withdrawing cash or visiting the bank regularly. This is due to lower level of digital financial literacy.

### **Informal Economic Sector**

India's massive informal economic sector comprising of domestic help, contract labourers, daily wage workers, farmers, fishermen, micro-entrepreneurs etc. runs almost entirely on cash. These groups of people typically do not have a formal bank account. Cash is their only means of receiving income and making payments. The demonetization has led to a situation of cash crunch in the economy which has created a huge disruption on work and daily lives of these people with severe adverse impacts on their livelihoods and well-being. The small service providers like auto-rikshaws, road-side eateries,

local kirana stores etc. are being abandoned for cab aggregators, online food home delivery, online grocery respectively. These informal services providers although being very large in numbers, are not part of the digital economy and are losing business. The demonetization has led them to compromise on their work and stand in long queues outside banks for their own hard-earned cash. However, through demonetization, the wealth produced and saved by the poor can be brought into the formal banking system.

### **Rural Population**

The effects of demonetization have been even more worrying in the rural parts of the country which are even more dominated by cash and which have limited physical accessibility to banks and other financial institutions. Visiting physical bank branches in rural areas still remains a time consuming and costly exercise for many. Other digital financial services like ATMs and POS machines at shops are limited in number and crippled with infrastructural issues. Ordinary rural residents are placed in great stress with nowhere to go.

### **Rural MSMEs**

The data on MSMEs, as per the latest available Fourth Census of MSME, 2006-07, reveal that there are 200.18 lakh unregistered rural sector units, and they make up over 55 per cent of such enterprises in India while urban MSMEs are 161.58 lakh. The bulk of the MSMEs in India have turnover in just a few lakhs of rupees and maximum of MSMEs are dominated by the micro enterprises. Majority of their transactions are on cash. With uneven spread of bank branches and ATMs among rural and urban regions, the micro and small enterprises operating in rural areas are adversely affected. The demonetization made impossible for them to get cash in lower denominations for their daily operations.

### **NBFC MFIs and Their Customers**

There are a large number of micro financing institutions (MFIs) in India, catering to the financing needs of rural and semi-urban Indian

population. Customers, typically individuals (women, daily wage workers, farmers), small traders and retailers, mainly operate on a cash basis due to informal and trifling nature of the amounts involved in such transactions. Loan instalments from some such customers are usually collected on a weekly and sometimes on daily basis. Demonetization has halted, albeit temporarily, business transactions of these individuals which are now running on a daily credit basis, and more importantly has led to a domino effect on employees/daily wage workers and other customers of non-banking financial companies-micro financial institutions (NBFC-MFIs) whose livelihood is based on cash payments. Such customers do not have bank accounts and/or sufficient means to either exchange currency in their possession into notes of acceptable denomination, or make a transition to cashless means of finance. This is adversely affecting their daily businesses/lives which in turn is affecting the timely repayment of loans taken by them from NBFC-MFIs. These loan defaults have led to temporary increase in non-performing assets of NBFC-MFIs which generally rely on borrowing from banks for further lending.

### **E-Wallet Companies**

The demonetization promotes cash-less economy and increase in use of digital financial services. The e-wallet companies have seen a rapid surge in the number of transactions and traffic on their web and app-based platforms which are mostly driven by urban and metropolitan parts of the country.

### **Conclusion**

RBI statistics shows that 80 percent of monetary circulation in India consisted of Rs. 500 and Rs. 1000 notes. This demonetization is putting more than 80 percent of the country's monetary economy under suspicion of black money. This creates confusion between unaccounted money" and black money". The government's move towards demonetization aims to convert black money into white money but inclusive growth can be achieved only if this money is used for development purposes. However, the government is withdrawing

subsidies, and reducing expenditure on development sectors. The development contemplated is in the sense of smart cities and cashless economy. But for India to be a cashless and digital economy, sufficient time and efforts are required. The process cannot be completed over night or fortnight or within months. This demonetization is much different from the 1978 demonetization which never really affected ordinary people. The 1978 demonetization covered notes of Rs 500 and Rs 1000 and those denominations were hardly used by the common man. The hundred rupee note was what most people used. However, in comparison to present scenario, the effect has been largely upon the ordinary man than on the ones who are the main contributors to the black money. With the aim of achieving financial inclusion along with making India a cash less and digital economy, efforts are required to make technology reach the bottom of the pyramid. For this purpose, the young generation should be leveraged upon to educate and support the poor, rural and elderly with digital literacy and transactions.

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## A STUDY ON THE IMPACT OF DEMONETIZATION ON REAL ESTATE SECTOR

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“Duty without expectation of reward, do your tasks with devotion and love, without fear of failure, leaving the rewards to Swami, not only will we achieve inner peace, but we will exceed our own expectations of performance”

Bhagavad Gita.

### Introduction

Most of India's business environment has been tremendously shaken up by the recent demonetization of the higher currency notes by the Modi government. This is the third demonetization exercise undertaken by the Indian authorities, if we include the one done just before independence in 1946. It is still too early to accurately gauge the depth of the shakeup this has caused, but its impact on the real estate sector is immediately visible.

### Demonetization

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 opposite of demonetization is remonetization where a form of payment is restored as legal tender. 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. 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. In 2015, the Zimbabwean government demonetized the Zimbabwean dollar as a way to combat the country's hyperinflation that was recorded at 231,000,000%. The 3-month process involved expunging the Zimbabwean dollar from the country's financial system and solidifying the US dollar, Botswana pula, and South African rand as the country's legal tender in a bid to stabilize the economy. Another example of demonetization occurred when the nations of the European Monetary Union adopted the euro in 2002. In order to switch to the euro, authorities first fixed exchange rates for the varied national currencies into euros. When the euro was introduced, the old national currencies were demonetized. However, the old currencies remained convertible into euros for a while so that a smooth transition through demonetization would be assured.

The Coinage Act of 1873 demonetized silver in favor of adopting the gold standard as the legal tender of the United States. The withdrawal of silver from the economy resulted in a contraction of the money supply, which subsequently led to a 5-year economic depression in the country. In response to the dire situation and pressure from silver miners and farmers, the Bland-Allison Act remonetized silver as legal tender in 1878.

## Real Estate

Real estate is property comprised of land and the buildings on it as well as the natural resources of the land including uncultivated flora and fauna, farmed crops and livestock, water and minerals. Although media often refers to the "real estate market" from the perspective of residential living, real estate can be grouped into three broad categories based on its use: residential, commercial and industrial.

Examples of residential real estate include undeveloped land, houses, condominiums and townhomes; examples of commercial real estate are office buildings, warehouses and retail store buildings; and examples of industrial real estate are factories, mines and farms.

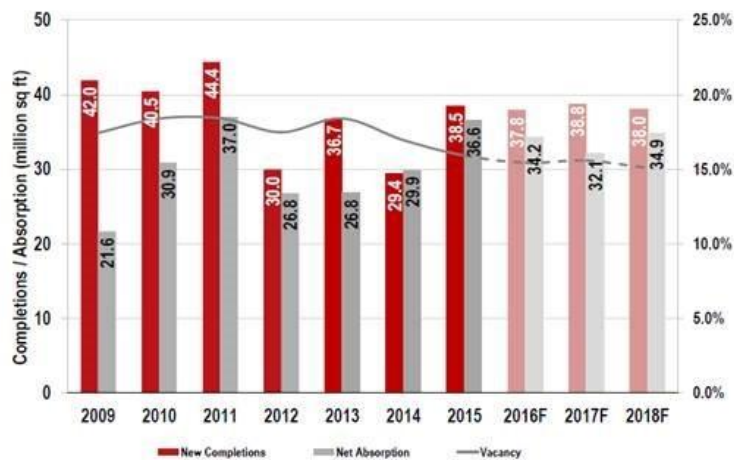
## Commercial Real Estate

On the demand side, the office space requirements of sectors such as manufacturing, logistics, FMCG, etc., showed positive signs in

2016, and we expect this to continue in 2017. Office space required by eCommerce/ start-ups and consulting firms rose, as these sectors are expected to continue with headcount addition to accommodate their business growth in the years to come. International banks and financial institutions are under increased cost and compliance pressures and are therefore expected to outsource more jobs to India. Depreciation of the INR versus the USD and Euro is likely to play a major role in this.

Unlike earlier, Indian corporates - including historically lease-averse companies like Infosys and TCS - have started showing a propensity towards leasing versus buying. Earlier, many Indian IT firms preferred constructing their own campuses. Now, as the contracts of many of these companies get shorter, they prefer to lease. For many companies, especially in non-technology sectors, money saved through leasing is reinvested in business.

Figure 1: Steady absorption projected for the forecast period of 2016-18



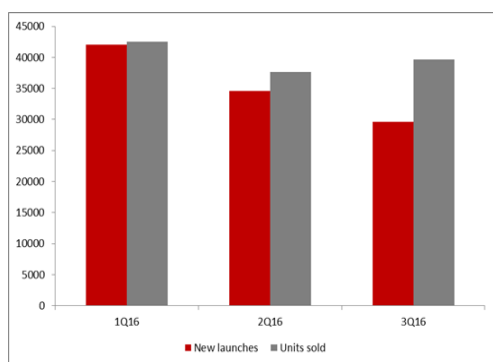
Note: Figures cover India's seven metropolitan cities – NCR-Delhi, Mumbai, Bengaluru, Chennai, Hyderabad, Kolkata and Pune  
Source: Real Estate Intelligence Service (JLL), 3Q16

## Residential Real Estate

A pan-India trend that emerged in 2016 was that a higher number of units were sold every quarter (1Q16-3Q16) than new project launches in the same period. A slowing number of new

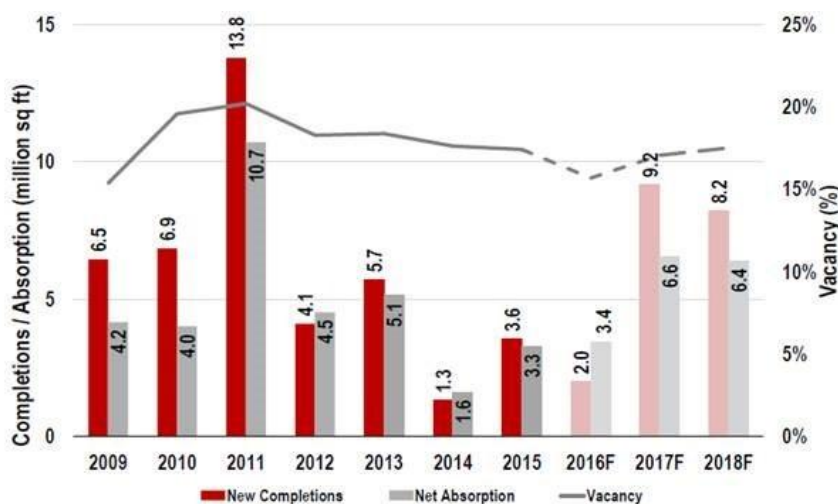
launches helped reduce the inventory overhang. Demonetization will result in the fourth quarter readings being drastically different from the first three quarters once they come in. Given that old currency notes are no longer valid, home

buyers/ investors using unaccounted wealth to carry out transactions in cash are facing a tough time, and developers accepting cash components are facing a higher liquidity crunch than those accepting all payments through cheque/ bank transfer. Overall, it will be interesting to see if 2016 sets a new benchmark in units launched versus units sold, surpassing the historic year of 2008 for good.



## Retail Real Estate

On the supply front, a couple of malls which were to be operational in 2016 are now expected to be completed in 2017. Coupled with the malls withdrawn up to 3Q16, 2016 will have seen a net supply of 2 mn sft and absorption of 3.4 mn sft. If the malls withdrawn are not factored in, 2016 will have seen a gross supply of 4.4 mn sft, with 3 mn sft of mall space already added up to 3Q16. Absorption was nearly twice the supply in 2016, thanks mainly to quality vacant spaces being absorbed quickly. With 14 poor malls getting shut in the past few quarters or getting refurbished into office buildings and shopping centers in Delhi-NCR and Mumbai, the retail space across key Indian cities stood at 75.8 million sft as of 3Q16.



2017 is likely to see the highest mall space becoming operational, second to 2011. High levels of activity are expected 2017 onwards, after a prolonged slowdown from 2014 that lasted through 2016. This slowdown was the result of very few malls getting completed in these three years, and also due to poorly-performing malls shutting down. All three segments of retail – apparel, F&B (food and beverage) and entertainment & cinema – did well in 2016. High streets and malls saw more

and more people eating out, which helped the F&B category. Delhi and Mumbai led this growth. Entertainment and cinema also saw a good momentum.

## Experts Views

Rohit Gera, MD, Gera Developments, asserts, “There is no doubt that sales which involve the exchange of cash will be affected. This will impact land prices too. If land prices crash on this account, there will be a likelihood of

property prices coming down as well.”

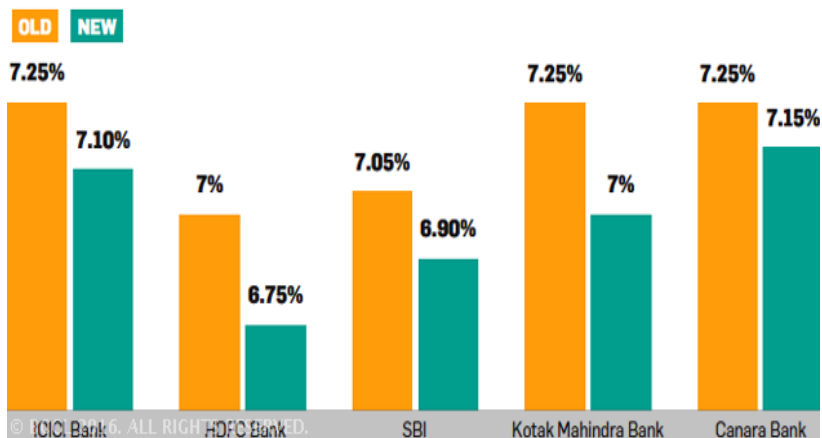
Ashwinder Raj Singh, CEO, Residential Services, JLL India, says, “The real estate sector will definitely be affected by the demonetisation exercise, as it has traditionally seen a very high involvement of black money and cash transactions. However, almost all such incidences have been in the secondary sales market, where cash components have traditionally been a ‘must.’” He further states that projects undertaken by reputed and credible developers in the top eight Indian cities will remain more or less unaffected.

“For buyers, this could be a great opportunity to get a deal, especially in ready to move-in projects, as real estate prices are likely to face a downward pressure and a few sellers may be more willing to negotiate and lower the prices of housing units,” says Khurshed Gandhi, Managing Director, Consulting Services, India, Cushman & Wakefield. According to Rohit Poddar, MD, Poddar Housing and Development, this segment could face a big impact in terms of pricing. “A large cash component is the norm in the luxury housing segment, as many buyers insist on using cash. But with the government clampdown, sales in this segment are likely to

dip, leading to price cuts. Some developers have already slashed prices.”

“Banks that have excess liquidity will look to sanction more loans going forward, and will probably effect another round of interest rate cuts on home loans,” says Adhil Shetty, CEO, BankBazaar. 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 sectors, may lead to the slowing of GDP growth,” says Sunil Kumar Sinha, Principal Economist and Director -Public Finance, India Ratings & Research. This will probably lead to a softening in inflation, which may prompt the RBI to carry out interest rate cuts and give more leeway for banks to lower their lending rates. “With this move, we also expect that the RBI will reduce rates, which will have a direct impact on home loan interest rates, thus giving consumers more cash flow to invest in real estate,” says Brotin Banerjee, MD & CEO Tata Housing Development Company. Several major banks like SBI, HDFC and ICICI, have only recently slashed home loan rates.

### Fixed Deposit Rates Have Dropped Across Banks



*Increased liquidity has brought down deposit rates, which would in turn lower lending rates*

### Undeniable Impact on Real Estate

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. However, almost all such incidences have been in the

secondary sales market, where cash components have traditionally been a veritable 'must'. In other words, the resale properties segment will take a big hit. However, short-term pain is inevitable when we look for any eventual long-term cure for the disease. There has for long been a strident demand to bring transparency in the sector so that it becomes more organized, and cash dealings must necessarily be the first symptom of the disease to be dealt with. The luxury and high-end segments of residential real estate will also see a major impact from this exercise, since it is another area which has seen a lot of payments done in cash. The legal banking/financing channels have accounted for only a small part of all transactions in this space. The demonetization move is likely to result in luxury property prices dipping by as much as 25-30% as sellers struggle to offload properties to generate liquidity. This means that luxury home buyers will suddenly have a much wider bandwidth of options to choose from. With black money suddenly being wiped out of the market, a lot of investors who have been investing in projects with unaccounted-for money - and raising prices to book profits - will be eliminated from the system, thereby aiding a much-needed correction.

### Mostly Unaffected

The primary market - or, more specifically, the market formed by projects undertaken by reputed and credible developers in the top 8 Indian cities - will remain more or less unaffected. This is because buyers into such projects take the home loans/finance route to buy their homes, and transactions are done through legal channels. Therefore, there will not be any major impact on sales in this segment. However, there might be an impact on quite a

few projects in tier 2 or 3 cities where cash has played a role even in primary residential sales. However, the turmoil in this segment will settle down in a short period of time.

### Conclusion

In the past one year, there have been a few positive and potentially long-lasting changes in the Indian real estate. The passing of RERA (Real Estate Regulation and Development Act 2016), the Benami Transactions Act and now the demonetization move will ensure that going forward, the sector will lose much of its historic taint and become more transparent. Only players who conduct their business with integrity will survive. This bodes well for end-users, who will be aware of their rights, have the assurance of not being cheated and will no longer need to contend with constantly rising prices. They will be able to buy properties of their choice at affordable prices, in projects which will assuredly be delivered on time. The demonetization exercise was a very necessary step which was bound to bring with it a tremendous shake-up wherever black money has played a major role. Over the long term, the Indian real estate sector will emerge stronger, healthier and capable of long periods of sustained growth. As of now, there is no reason for developers and investors who have conducted their dealings transparently and legally to panic. It will essentially be business as usual for them.

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## DEMONETISATION: MARCHING FROM PAPER CURRENCIES TO PLASTIC CARD CURRENCIES

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### Abstract

*The paper discusses about the move of demonetization taken by Central Government of India on 8th November, 2016. Its effects on different sectors in India. The sectors cover Micro Businesses, E-Wallet businesses, online retail stores and so on. The paper is based on secondary data collected from different newspapers and online sources, History of demonetization in India and around the world is addressed. Demonetization guides us how to redefine economy of country by overcoming the earlier causes for failure. Demonetization obviously brings many inconveniences to common people but it is for only short term. However the long term benefits of demonetization overrides the short term challenges. Government initiatives like Income Declaration Scheme 2016, Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act 2015, Joint Declaration of AEOI between India and Switzerland to address black money etc. in redefining Indian economy are to be highlighted and these initiatives leaves their footsteps as part of history.*

**Keywords:** *Demonetization, Paper currencies, Plastic Card Currencies.*

### Introduction

Money is the life blood of every economy. With the growth of civilization and mankind, the needs of human beings increased. In order to fulfil humans unlimited wants barter system emerged. But over a period of time, the invention of money became a strong pillar to build an economy. All activities such as production, exchange, distribution, services etc. form an economy. It is called formal economy. An informal economy is economic 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. Parallel economy means functioning of an unsanctioned sector in the economy whose objective is to evade tax and run parallel in contradiction with the objectives of official or sanctioned or legitimate sector in the same economy. This is popularly known as illegal economy, unaccounted economy, unsanctioned economy, tax evaded economy or black economy etc. Demonetization is an act where the old unit of currency gets retired and replaced with a new currency unit. It can also be considered as withdrawal of a specific currency from market.

### Birth of a Paper Currency in India

Until the 18th century, people in India used to use silver and gold coins to carry out their day to day transactions. But then some European companies established their own banks in the region to carry out their business transactions, like the Bank of Hindustan in Calcutta. They introduced the very first versions of Indian paper notes which then boosted the further popularised the use of paper notes. The Bank of Bengal went on to release notes that featured a small image of a female figure meant to represent the idea of “commerce,” as well as the bank’s name and the denomination in three scripts: Urdu, Bengali, and Nagri. However, it was only after the Paper Currency Act of 1861 that the British colonial government really got involved in producing money, establishing the paper currency as we know it today.

### Meaning of Demonetize

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 not first time in India, but before it, has happened twice, first in the year of 1946 and then in the year of 1978. In January 1946, Rs1,000 and Rs10,000 banknotes were withdrawn but the same Rs1,000, Rs5,000 and Rs10,000 notes were reintroduced in 1954, and were again demonetized in January 1978. The second demonetization has taken place in the year of 1978 by the Janata Party government. It had decided to withdraw Rs1,000, Rs5,000 and Rs10,000 notes by issuing an ordinance on the morning of 16 January that year.

### **Demonetisation Affect Different Sectors**

Demonetization created effect on different sectors in different manners resulting into boom for some sectors like E-Wallet businesses and somewhere resulting into temporary slowdown like micro businesses like vegetable vendors or some small seasonal businesses, where most of the transactions are on cash basis. The demonetisation move seems to have widespread support from ordinary people; however there are pockets of hardship despite attempts by the government to exempt crucial needs such as hospitals, tolls, chemists, crematoria and petrol pumps. Let analyse the sectors that will be most affected by demonetisation because of the high level of cash spending.

**Real Estate** will be one of the most affected sectors. Everyone believes the same and hence the Nifty Realty Index closed at 175.2, down 11.60%. It is a popular bet in the fresh and resale market dominated by black money holders. The number of buyers will come down and low demand will bring about lower prices in the short term. However, it will subsequently help in improving the sector's prospects. Unorganised builders will be most affected and the sector will drag down cement and ceramic sectors also along with it.

**Gold prices:** As investors rushed to invest in safe havens, Gold Futures touched a high of Rs31,376 and was trading at Rs30,500 up 2%.

Local shops have stopped selling gold in exchange of old notes "It will create havoc for a little while and the economy will also destabilise. But overall, it is going to be good for the country. In fact, the jewellery industry will thrive as people will have more trust on jewellery than currency notes," says Gitanjali Gems Chairman and Managing Director Mehul Choksi. However S Subramaniam, CFO of Titan Company contradicted saying "The Indian jewellery market will be the worst hit with the ban on Rs500 and Rs1000 currency notes. This is due to the preference of shoppers to pay amounts over Rs2 lakh in cash."

**Banks:** Banks are the back bone of this entire process and also the biggest beneficiaries. Post complete exchange of currencies, banks should benefit from higher deposits and transaction volumes, lower cash handling costs and greater acceptance of digital channels. There are likely to be secondary benefits for the insurance, asset/wealth management companies through higher financial savings.

**Entertainment/Restaurants:** One of the most common areas, where undisclosed income is utilised, is the entertainment and restaurant industry. There are plenty of restaurants out there that accept Credit and Debit Cards. Since a majority of the transactions are in cash form in here, it will be exciting to see how people react to it. Will they continue to opt for entertainment at the same scale that they did earlier?

**Beauty parlours:** This has been a booming industry that works largely on cash. In the past few years, beauty parlours have mushroomed on almost every street of urban and semi-urban India. Although a few of the larger, organised parlours do accept credit and debit card payments, most parlours transact mainly in cash because it is often seen as a luxury spending fuelled by unaccounted income.

**Tourism:** Favourite foreign Tourist Destinations of Indian people like Thailand, Singapore, Malaysia, Maldives, Hawaii, Vietnam, Sri Lanka, Nepal, China, Indonesia and Dubai will see negative impact in tourism revenues all

black money sponsored trips will come to a halt. Indian Local Tourism will also get affected as they lose large chunks of the pay-in-cash-only clientele. Illegal foreign currency conversion is also reported to be badly hit, because they were big acceptors of Rs500 and Rs1000 denomination currency.

Luxury items will have a drastic negative impact. Majority of the people spend their undeclared income on such products. After the decision, it is likely that all luxury segments like clothing, electronics, luxury car, furnishing and allied business will take a hit. Media and hospitality industries are also likely to get affected. Sectors that we feel will not be affected are- Pharma, FMCG, Education, Agriculture, Hospitals, Energy and Telecommunication.

### Reasons of Demonetization

According to The Reserve Bank of India, the most important reason for the demonetization of 500 and 1000 rupees note was the rise of fake currencies of the same notes, and also the higher occurrence of black money in the economy. "The fake notes are being used for illegal activities by anti-nationalists like terrorists and India being a nation of a cash-based economy, the circulation of fake currency continues to be a threat. But it has been taken care by Government that the public that a person who changed his higher value cash will get exactly the equal amount in lower denominations.

### Measures Needed to Sustain Demonetization Benefits

After a lot of efforts to erase the parallel economy, the efforts should not go waste. So, one of the old proverbs says "Prevention is better than cure". So it is better to implement some of the preventive measures against development of parallel economy once again and to sustain reformed healthy economy. Following are a few measures which will help sustain the dividends of demonetization:

**1. Implementation:** The problem is not the existence of parallel economy or finding the measures to curb it, but it is implementation of all those measures to overcome menace of parallel economy. If Government takes initiation in implementing at least majority of the measures available before Government, then this problem finds solution on its own.

**2. Linking of Aadhaar:** All multiple bank accounts must be linked with Aadhaar. Even not only bank accounts but also various departments such as Income Tax, sales tax, VAT, Excise, Customs, Service Tax, Licensing department etc. so that, various transactions can be traced easily. This not only creates awareness among the people but also as controlling mechanism. Linking of Aadhaar must be made mandatory to get civil benefits.

**3. Reduced tax rates:** One of the main motives behind tax evasion is high tax rates. If we look at tax heaven countries, India has high tax rates. Tax rates are to be brought down to such extent that cost of compliances must be lower than the cost of tax evasion. This can be achieved only when we widen our tax net.

**4. Mechanised System:** Due to corruption we find there are leakages in generating revenue to Government. If we plug those leakages, Government can reduce its tax rates. Reduced human interference in the system will reduce corruption. Even some strong measure must be implemented on corrupt officers too.

**5. Declaration of assets:** Like wealth tax act which was in force earlier, it must be made mandatory to declare every persons asset to Government. Undeclared assets if found by Government, then the same can be seized by Government. This prevents mobilisation of black money in the form of gold, land, house property etc.

**6. Simplified tax structure:** Many people are finding it difficult to understand various taxes and its calculation. So a movement of GST may bring transparent and clear picture of indirect taxes. At the same time removal of various tax mechanism in direct tax such as

surcharge, education cess, short term capital gain u/s 111A etc may be removed, which will simplify the tax calculation mechanism.

#### **7. Uniform Property Registration**

**Software:** Developing a uniform software network like stock exchange to register properties throughout the country linked with Aadhar is necessary to overcome holding of benami properties. It can be done without disturbing the state govt power to generate revenue of stamp duty, just as a control mechanism.

**8. Good Governance:** Control on holding of cash and physical money both in India and abroad, must be brought under the legal framework. People must believe in good governance and support for it. Winning public faith in good governance is very much essential to build strong economy.

Many more preventive measures must exist in the system to hold and retain the healthy economy.

#### **Conclusion**

Demonetization is a general measure to mitigate the problems of black money and counterfeit notes, though there are specific measures to tackle the same menace. Demonetization is, usually, immediately or simultaneously followed by remonetisation, as there is no other way. The Government has already introduced new notes of Rs. 2,000 and Rs. 500 and likely to introduce notes of Rs. 1,000. It is everybody's wish that there should not be a situation for demonetization (of new notes) once again, in the near future.

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## IMPACT OF DEMONETISATION ON INDIAN ECONOMY

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### Abstract

*India is largely a cash-driven economy, though a rapidly growing percentage of the population is becoming tech savvy. A shadow economy reliant on cash transactions and evading taxes, especially on high value transactions such as real estate purchases, gold, and intrinsically illegal activity, has taken deep and highly persistent root. Counterfeiting of Indian rupee notes and their subsequent use in funding of terrorist activities has also been an important concern. This initiative of the government to attack corruption will make it hard for those in possession of black money to use it. The aim of taking out Rs 500 and Rs 1000 notes out of the circulation in the market is to reduce the amount of illegitimate money in the economy. According to the economist the notes which have high value make it much easier for black money to move around the country.*

**Keywords:** *Black money, Illegitimate, Corruption, Economy, Counterfeit*

### Introduction

Demonetisation is the act of Banning /taking back of a currency unit of its status as legal tender. Demonetisation 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. 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 demonetisation. Zimbabwe, Fiji, Singapore and Philippines were other countries to have opted for currency demonetisation.

The Government of India has implemented a major change in the economic environment by demonetising 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 up to December 30, 2016 to exchange the notes held by them. The proposal by the government involves the elimination of these existing notes from circulation and a gradual replacement with a new set of notes.

The main objective of this step is to unearth the black money, to curb corruption, counterfeit currency as well as terror financing. This step is considered as the biggest cleanliness drive

against the black money in the history of Indian economy. As per RBI, 87% transactions in India are cash transactions and this loophole is used by corrupted people to build a parallel economy with unaccounted money. This parallel economy helps in terror financing which in turn hampers the growth and development of country. Currently high- values notes account for total value of 86% of the notes in circulation in India. It is expected that this step will help in reducing the fiscal deficit of India and promote the cashless economy in India which can be easily monitored.

### Historical facts about Demonetisation in India

The government's move to demonetise, even then, was to tackle the issue of black money economy, which was quite substantial at that point of time. Although the history of demonetization in India dates back to the time when various rulers ruled this country, the freshest and most significant instances of demonetisation in India are:

- On 12th January 1946, Rs. 500, Rs. 1,000 and Rs. 10,000 notes were declared invalid as legal tender.
- New notes of Rs. 1000, Rs. 5000 and Rs. 10,000 came into economy in 1954.

- On 16th January 1978, the Morarji Desai led-Janata Party demonetised banknotes of Rs. 1000, 5000 and 10000. Note that, the finance minister at that time was H.M. Patel.
- RBI introduced a new banknote of Rs. 500 into the economy in 1987 to restrain inflation.
- On 8th November 2016, the old banknotes of Rs. 500 and Rs. 1000 were barred from being legal tender and new notes of Rs. 2000 and Rs.500 were soon introduced.
- 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.

### Legal Facts about Demonetisation in India

The legal basis for the order demonetising currency can be found in Section 26 of the Reserve Bank of India Act, 1934. Under sub-section (2) of this Section, the Union Government is given the power to declare that any notes issued by the Reserve Bank will no longer be legal tender. The only procedural requirement is that the Board of the RBI recommends the same to the Union Government. In fact, in 1978, demonetisation was carried out under a special legislation, namely the High Denomination Bank Notes (Demonetisation) Act, 1978.

### Role of Government & RBI in Demonetisation

The introduction of Pradhan Mantri Jan Dhan Yojana (PMJDY) and Income Disclosure Scheme (IDS) were done to ensure that everyone has a bank account and gets sufficient time to declare their incomes. Before the Prime Minister issued an order to demonetize certain currency, he consulted the RBI and the Finance Minister. Here is a list of the rules set in place continuously over a time of 20 days since the PM announced demonetisation:

Date	What Happened
8 <sup>th</sup> November	PM declared that the Rs. 500 & Rs. 1,000 notes are invalid. Exchange of cash up to Rs. 4,000 allowed at banks, ATM withdrawal limited to Rs. 2,000.
9 <sup>th</sup> November	Remain shut for a day.
10 <sup>th</sup> November	Banks opened. Massive queues ensue as millions line up to exchange old currency or deposit their money.
12 <sup>th</sup> November	Reports come in that people died waiting in the queues. The Sensex registers the biggest single-day fall in nine months.
13 <sup>th</sup> November	ATM withdrawal limit was raised to Rs. 2,500.
14 <sup>th</sup> November	Cash exchange limit was raised to Rs. 4,500.
15 <sup>th</sup> November	Banks are asked to apply indelible ink marks on people exchanging money. The election commission raises concerns regarding this.
16 <sup>th</sup> November	Parliament session begins; opposition parties up the ante against the government over the suffering of the poor.
17 <sup>th</sup> November	Currency exchange limit lowered to Rs. 2,000.
18 <sup>th</sup> November	India's Supreme Court says many are "frantic" over demonetisation.
22 <sup>nd</sup> November	RBI says banks have received Rs5.3 lakh crore in deposits since Nov.08.
24 <sup>th</sup> November	Old notes can now only be deposited at banks and not exchanged.
27 <sup>th</sup> November	RBI governor Urjit Patel justifies demonetisation, says the new notes are difficult to counterfeit.

### Most important Reasons for Demonetisation in India 2016

The reasons offered by the Indian Government for demonetisation are

- To curb the menace of black money in the economy.
- To lower the cash circulation in the country which is directly related to corruption in our country.
- To control counterfeit notes that could be contributing to terrorism groups.

## Impacts of Demonetisation on Indian Economy

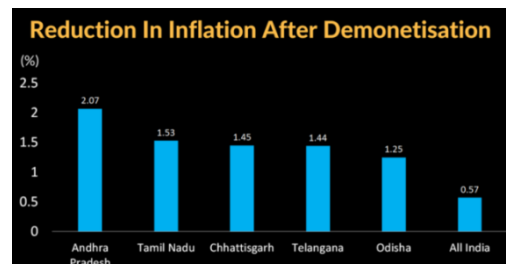
These demonetisation measures have had significant and immediate impact on the state of the Indian economy. These measures are also expected to result in long-term impact on certain industries and sectors. These measures have resulted in a significant decrease in liquidity in the short term, which is expected to ease gradually with the introduction and circulation of the new currency notes. As a result of these measures and increased deposits with banks, the bank deposit base has 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. Since our economy is heavily dependent on cash, as only less than half the population uses banking system for monetary transactions, demonetisation has hit trade and consumption hard. With people scrambling for cash to pay for goods and services, the move is likely to take a big toll on the country's growth and output during the current fiscal. Consumption makes up for around 56% of India's GDP, hence, a drop in spending will pull down growth. The following figure shows the percent level of reduction in inflation after Demonetisation.

The following are some of the impacts of Demonetisation on Indian Economy

- It will push up the demand for gold as safe store of wealth.
- This would result in gold imports and it will impact balance of payments.
- It will push up the demand for dollars as safe store of wealth.
- People would be happy to pay the charges/ commission for converting black money into gold and then reconverting it into rupees.
- The same stands for dollars of other foreign currencies.
- It will be a big boost for e-wallet.
- E-wallet is an online prepaid account where one can stock money, to be used when

required. You can pass on the benefits of your e-wallet to your friends and family as well.

- It will be a big boost for credit cards.
- India is still a vastly un-banked country.
- Many among the poor do not have bank accounts.
- To expect them to use plastic currency is unrealistic.
- In hinter lands of India modern banking system is rudimentary so it will be a tough situation for small traders.



## Conclusion

Demonetisation step of central government will surely result into something good and help in reducing the black money. It will surely bring the clear view of every transaction within the country and promote cashless transactions. This step will affect general people to some extent but for the benefit of future generation such decisions are inevitable.

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## DEMONETIZATION – PROS AND CONS

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### Abstract

*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.*

**Keywords:** *Demonetization, Black money.*

### Introduction

Demonetization is a very bold Decision taken by Indian government for Curbing all Black Money in India. Major aim of Demonetization is making India a cash less society. Demonetisation is a process by which a series of currency will not be legal tender. The series of currency will not acceptable as valid currency. The same thing happens with the Rs. 500 and Rs. 2000.

### Causes of Demonetization

There can be many causes of Demonetisation in any economy some of them are, introduction of new currency ,black marketing, currency storage, corruption and others. There will be excess fake currency in the economy is main reason of demonetisation.

### Happened on Demonetization

On 8<sup>th</sup> November 2016, Indian Government had announced that from today onward rupees 500 and 1000 rupee note will not be a legal tender. This means that 500 and 1000 rupee note will not be accepted by anyone except the organisation declared by government. They can change the currency from the banks and post offices till 30th December 2016.

### Demonetization History and Background in India

This is not the first time when Indian currency is demonetised in India.

The first instance was in the year 1946 and the second in the year 1978 when an ordinance was promulgated to phase out notes with denomination of Rs.1,000, Rs.5,000 and Rs.10,000. The highest denomination note ever printed by the Reserve Bank of India was the Rs 10,000 note in the year 1938 and again in the year 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 bank notes of Rs 1,000, Rs 5,000 and Rs 10,000 were reintroduced in the year 1954 and all of them were demonetized in January 1978. The Rs 1,000 note made a comeback in November 2000. Rs 500 note came into circulation in October 1987. The move was then justified as attempt to contain the volume of banknotes in circulation due to inflation.

### Pros and Cons of Demonetization in India in 2016

There is huge impact of Demonetization of Indian Economy. These 500 and 1000 Notes contribute more than 84 % of money circulation. This Decision has a direct impact on money circulation.



### Pros of Demonetization Rs 500, Rs.1000

Pros	Details
<b>Attack on Black Money Holders</b>	<ul style="list-style-type: none"> <li>• People who possess huge amounts of black money in hard cash are at a complete loss now.</li> <li>• If a Black money holder want to deposit money in bank account then he/she has to show ID.</li> <li>• There will be 200 % penalty on Income tax amount.</li> </ul>
<b>Death Knell to Fake Currency</b>	<ul style="list-style-type: none"> <li>• Most of the fake currencies used to be in the denominations of Rs. 500 and Rs. 1000.</li> <li>• By banning Rs. 500 and Rs. 1000 notes, Central Government has busted all.</li> </ul>
<b>End of Terrorist Funding</b>	<ul style="list-style-type: none"> <li>• Huge sums of money especially in hard cash in the denominations of Rs. 500 and Rs. 1000 was used to fund Islamic terrorists, Naxalites and other non-state actors. Now, these Organizations will suffer from shortage of funds.</li> <li>• Most of these terrorist, maoist organization used these funds for buying arms and weapons.</li> <li>• Buying arms is an extremely difficult task now after this ban.</li> </ul>
<b>Transparency</b>	<ul style="list-style-type: none"> <li>• Online transaction = More transparency = Financial Intelligence Unit will tack all Online transactions.</li> <li>• Now there will be more transparency in real estate sector.</li> </ul>
<b>End of Huge Donations</b>	<ul style="list-style-type: none"> <li>• Huge amounts of donation that is taken in the private education and healthcare sectors would be stopped.</li> <li>• Schools, engineering and medical colleges and hospitals (private ones) used to take huge amounts of money as donations especially in the form of hard cash in the denominations of Rs. 500 and Rs. 1000.</li> </ul>

	<ul style="list-style-type: none"> <li>• These money-minded people running these institutions won't be able to make any easy money now.</li> <li>• Same applies to the real estate sector.</li> </ul>
<b>Towards a Cashless Economy</b>	<ul style="list-style-type: none"> <li>• While it is practically impossible to have a 100% cashless economy, the proportion of hard cash in the economy will decrease and our economy will get more digitized. This will result in greater transparency.</li> <li>• Now government has put some limitation for cash withdraw from bank Accounts. People will go for online payments, they will use PayTM or other Online payment companies for buying goods or making payments. More use of Debit and Credit Card</li> </ul>
<b>Hawala Transactions End</b>	<ul style="list-style-type: none"> <li>• Most Hawala transactions used to be carried out in the denominations of Rs. 500 and Rs. 1000.</li> <li>• With this ban , Modiji has delivered a fatal blow to the unethical Hawala traders as they can't trade anymore using denominations of Rs. 500 and Rs. 1000 .</li> </ul>

### Cons of Demonetization - Here Is the List of Cons of Demonetization

The following are important points related to Positive impact of Demonetization on Indian Economy.

Cons	Details
<b>Rush at Banks</b>	<ul style="list-style-type: none"> <li>• Banks will be extremely over-crowded by people.</li> <li>• People will forget everything else and throng to the places where the banned notes are being officially exchanged leading to a tremendous chaos.</li> </ul>
<b>Shortage of Money to Common People</b>	<ul style="list-style-type: none"> <li>• There will be shortage of money for common people.</li> </ul>

<b>Stock Market</b>	<ul style="list-style-type: none"> <li>Due to currency being sucked out of the market coupled with Trump's victory, the mood at the stock market was completely bearish.</li> <li>Sensex lost 1600 points at open. This can adversely have a negative effect on trade in general.</li> </ul>
<b>Problem for House Wives</b>	<ul style="list-style-type: none"> <li>Many Indian housewives store money secretly so that they could be of help during times of financial crisis in their households.</li> <li>The accumulated money of our respected Indian housewives is of no use now until they exchange in the banks and post-offices.</li> </ul>
<b>Short Term Inflation</b>	<ul style="list-style-type: none"> <li>Due to shortage of money in the market, a short-term cost push inflation will occur.</li> <li>The price of gold has already become sky high.</li> <li>Prices of vegetables and fruits have also soared burdening the common man.</li> </ul>
<b>Marriage Season</b>	<ul style="list-style-type: none"> <li>Difficult for those families those have weddings.</li> </ul>

### Effects on Parallel Economy

The removal of these 500 and 1000 notes and replacement of the same with new 500 and 2000 Rupee Notes is expected to – 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. Temporarily stall the circulation of large volume of counterfeit currency. It would curb the funding for anti-social elements like smuggling, terrorism, espionage, etc.

### Effects 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.

### Effects on Demand

The overall demand is expected to be affected to an extent. The demand in following areas is to be impacted particularly:

1. Consumer goods
2. Real Estate and Property
3. Gold and luxury goods
4. Automobiles (only to a certain limit)

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.

### Effect on Prices

Price level is expected to be lowered due to moderation from demand side. This demand driven fall in prices could be understood as follows:

- **Consumer goods:** Prices are expected to fall only marginally due to moderation in demand as use of cards and cheques would compensate for some purchases.
- **Real Estate and Property:** Prices in this sector are largely expected to fall, especially for sales of properties where major part of the transaction is cash based, rather than based on banks transfer or cheque transactions.

### Effect on GDP

The GDP formation could be impacted by this measure, with reduction in the consumption demand. However with the recent rise in 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.

### Effect on Online Transactions 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 (Debit and Credit Cards), etc. will definitely see substantial increase in demand. This will bring more transparency in system and you can easily track online money transactions.

### Conclusion

Demonetisation will slow down growth rate in short term and medium term because people have less money in hands. So demand is low, that is why it is hampering our growth rate. But as soon as people get money, markets will be back on track. But its long term gain is "fictional" or say "disputed". Some people theoretically says it will benefit the economy as government will have more revenue but others say giving a electric shock to the economy when its already under distress business sentiment can send it into coma. India is a cash based economy and demonetization will temporarily decrease liquidity in this economy. Decreased liquidity will lead to decreased demand which will result in decreased productivity causing a slowdown in consumer market. People have panicked due to sudden demonetization. This will force them to save and store more money. Thus, a decrease in demand leading to slowdown in consumer market.

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## E – INDIA A STUDY ON DEMONATISATION

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### Introduction

India is more reliant on cash than almost any other country on earth, 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. A Cashless future is the real goal of India's Demonetization move. The E - India programme is a flagship programme of the Government of India with a vision to transform India into a digitally empowered society and knowledge economy. "Faceless, Paperless, Cashless" is one of professed role of Digital India. There are various Digital payment methods like;

- **Banking cards (debit / credit / cash / travel / others)**

Banking cards offer consumers more security, convenience, and control than any other payment method. Wide varieties of cards are available, which includes credit, debit and prepaid cards, that offers enormous flexibility, as well. These cards provide two factor authentications for secure payments e.g secure PIN and OTP. RuPay, Visa, MasterCard are some of the example of card payment systems. Payment cards give people the power to purchase items in stores, on the Internet, through mail-order catalogues and over the telephone. They save both customers and merchants' time and money, and thus enable them for ease of transaction.

- **Unstructured Supplementary Service Data (USSD)**

This service allows mobile banking transactions using basic feature mobile phone, there is no need to have mobile internet data

facility for using USSD based mobile banking. It is envisioned to provide financial deepening and inclusion of under banked society in the mainstream banking services.

- **Aadhaar Enabled Payment System (AEPS)**

AEPS is a bank led model which allows online interoperable financial transaction at POS (Point of Sale / Micro ATM) through the Business Correspondent (BC)/Bank Mitra of any bank using the Aadhaar authentication.

- **Unified Payments Interface (UPI)**

Unified Payments Interface (UPI) is a system that powers multiple bank accounts into a single mobile application (of any participating bank), merging several banking features, seamless fund routing & merchant payments into one hood. It also caters to the "Peer to Peer" collect request which can be scheduled and paid as per requirement and convenience. Each Bank provides its own UPI App for Android, Windows and IOS mobile platform(s).

- **Mobile Wallets**

A mobile wallet is a way to carry cash in digital format. We can link our credit card or debit card information in mobile device to mobile wallet application or we can transfer money online to mobile wallet. Instead of using our physical plastic card to make purchases, we can pay with our smartphone, tablet, or smart watch. An individual's account is required to be linked to the digital wallet to load money in it. Most banks have their e-wallets and some private companies. e.g. Paytm, Freecharge, Mobikwik, Oxigen, mRuppee, Airtel Money, Jio Money, SBI Buddy, itz Cash, Citrus Pay,

Vodafone M-Pesa, Axis Bank Lime, ICICI Pockets, SpeedPay etc.

- **Banks Pre-Paid Cards**

A card issued by a financial institution that is preloaded with funds and is used like a normal credit card. A prepaid credit card works in the opposite way of a normal credit card, because instead of buying something with borrowed funds (through credit), we can buy things with funds that have already been paid.

- **Point Of Sale**

A point of sale (POS) is the place where sales are made. On a macro level, a POS may be a mall, a market or a city. On a micro level, retailers consider a POS to be the area where a customer completes a transaction, such as a checkout counter. It is also known as a point of purchase.

- **Internet Banking**

Internet banking, also known as online banking, e-banking or virtual banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website.

## **Different types of online financial transactions are**

### **1. National Electronic Fund Transfer (NEFT)**

National Electronic Funds Transfer (NEFT) is a nation-wide payment system facilitating one-to-one funds transfer. Under this Scheme, individuals, firms and Corporates can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme.

### **2. Real Time Gross Settlement (RTGS)**

RTGS is defined as the continuous (real-time) settlement of funds transfers individually on an order by order basis (without netting). 'Real Time' means the processing of instructions at the time they are received rather than at some later time; 'Gross Settlement' means the

settlement of funds transfer instructions occurs individually (on an instruction by instruction basis).

### **3. Electronic Clearing System (ECS)**

ECS is an alternative method for effecting payment transactions in respect of the utility-bill-payments such as telephone bills, electricity bills, insurance premium, card payments and loan repayments, etc., which would obviate the need for issuing and handling paper instruments and thereby facilitate improved customer service by banks / companies / corporations / government departments, etc., collecting / receiving the payments.

### **4. Immediate Payment Service (IMPS)**

IMPS offer an instant, 24X7, interbank electronic fund transfer service through mobile phones. IMPS is an emphatic tool to transfer money instantly within banks across India through mobile, internet and ATM which is not only safe but also economical both in financial and non-financial perspectives.

- **Mobile Banking**

Mobile banking is a service provided by a bank or other financial institution that allows its customers to conduct different types of financial transactions remotely using a mobile device such as a mobile phone or tablet. It uses software, usually called an app, provided by the banks or financial institution for the purpose. Each Bank provides its own mobile banking App for Android, Windows and iOS mobile platform(s).

### **Micro ATM's**

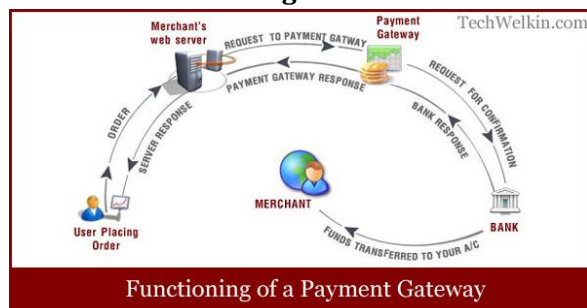
Micro-ATMs are biometric authentication enabled hand-held device (also known as a Point of Transaction [PoT] terminal). Micro-ATMs will primarily perform following functions:

- Cash withdrawal
- Cash deposit
- Balance enquiry
- Remittances

Business Correspondents (BCs) appointed by the banks will operate these devices. The

physical currency would be handled by this Business Correspondent and not a machine like a regular ATM. All transactions will require online biometric authentication with the UIDAI authentication server in order to be processed.

**Figure 1**



### BHIM

The Bharat Interface for Money (BHIM) was rolled out by Prime Minister Narendra Modi on Friday, in an initiative to enable fast, secure and reliable cashless payments through mobile phones. It is an app that helps us to make quick transactions using UPI.

The payments are made directly from bank account to bank account using just mobile number or payment address.

The app is actually been built on top of UPI, that is an instant payment system developed by the National Payments Corporation of India (NPCI), an RBI-regulated entity.

UPI is built over the IMPS infrastructure and allows us to instantly transfer money between any two parties' bank accounts. This seals the government's push towards digital payments after the November 8 demonetisation that resulted in the scrapping of high-value Rs 1,000 and Rs 500 currency notes. As it is Aadhaar-enabled, the app puts an end to the fuss around other e-wallets. Moreover, an iOS version will be launched soon.

### UPI

Launched in February this year by the National Payment Corporation of India (NPCI), the UPI allows you to make payments using your mobile phone as the primary device for transactions, through the creation of a 'virtual payment address', which is an alias for your bank account. On the BHIM app, it would be <mobile number@upi> or <preferred user id@upi>. This user id would be your primary address, which can be used to send or request money through other ids linked to it.

### Banks that Support BHIM

There's a pretty comprehensive list of banks that are supporting BHIM app are as follows:

Allahabad Bank, Andhra Bank, Axis Bank, Bank of Baroda, Bank of India, Bank of Maharashtra, Canara Bank, Catholic Syrian Bank, Central Bank of India, DCB Bank, Dena Bank, Federal Bank, HDFC Bank, ICICI Bank, IDBI Bank, IDFC Bank, Indian Bank, Indian Overseas Bank, IndusInd Bank, Karnataka Bank, Karur Vysya Bank, Kotak Mahindra Bank, Oriental Bank of Commerce, Punjab National Bank, RBL Bank, South Indian Bank, Standard Chartered Bank, State Bank of India, Syndicate Bank, Union Bank of India, United Bank of India, Vijaya Bank.

### Cashless Economy

A cashless economy is one in which all the transactions are done using cards or digital means. The circulation of physical currency is minimal. India uses too much cash for transactions. The ratio of cash to gross domestic product is one of the highest in the world—12.42% in 2014, compared with 9.47% in China or 4% in Brazil. Less than 5% of all payments happen electronically. The number of currency notes in circulation is also far higher than in other large economies. India had 76.47 billion currency notes in circulation in 2012-13 compared with 34.5 billion in the US.

Figure 2

Rs 500 and Rs 1,000 banknotes in circulation						
Denomination (Rs)	Volume (crore pieces)			Value (Rs lakh crore)		
	Mar-14	Mar-15	Mar-16	Mar-14	Mar-15	Mar-16
500	1141	1313	1571	5.7	6.6	7.9
(% share)	14.7	15.7	17.4	44.4	45.9	47.8
1,000	508	561	633	5.1	5.6	6.3
(% share)	6.6	6.7	7.0	39.6	39.3	38.5
<b>500 and 1000 together</b>	<b>1649</b>	<b>1874</b>	<b>2203</b>	<b>10.8</b>	<b>12.2</b>	<b>14.2</b>
(% share)	21.3	22.4	24.4	84.1	85.2	86.4
<b>Total of all notes</b>	<b>7733</b>	<b>8358</b>	<b>9027</b>	<b>12.8</b>	<b>14.3</b>	<b>16.4</b>
Source: RBI						

The above table shows the circulation of 500 & 1000 rupee notes, of the financial years 2014 -2016 as per RBI. According to 'Cost of Cash in India' survey conducted by MasterCard Inc. and The Fletcher School's Institute for Business in the Global Context in 2014, 12.04% monetary transactions is occupied by currency notes and coins and stands , whereas smaller developing countries have much less cash transactions as a percent of their GDP. The total cost incurred for storing, transporting, and processing physical cash in India stands at a staggering Rs. 21,000 crore. So, if the country moves a major chunk of its transaction moves to cashless modes, then it will save a lot of money in the process which can then be utilized at other important places for further economic development.

### Benefits of Cashless Economy

- It helps us in controlling the generation of black money.
- Will reduce real estate prices because of the control of black money generation, as most of black money is invested in real estate prices which inflates the prices of Real estate markets
- It will overlay way for universal availability of banking services to all, as no physical infrastructure is needed other than digital.
- There will be greater efficiency in welfare programmes as money is wired directly into the accounts of recipients. Thus once money is transferred directly into a beneficiary's bank account, the entire process becomes

transparent. Payments can be easily traced and collected, and corruption will automatically drop, so people will no longer have to pay to collect what is rightfully theirs.

- There will be efficiency gains as transaction costs across the economy should also come down.
- 1 in 7 notes is supposed to be fake, which has a huge negative impact on economy, by going cashless, that can be avoided.
- Hygiene – Soiled, tobacco stained notes full of germs are a norm in India. There are many such incidents in our life where we knowingly or unknowingly give and take germs in the form of rupee notes. This could be avoided if we move towards Cashless economy.
- In a cashless economy there will be no problem of soiled notes or counterfeit currency
- Reduced costs of operating ATMs.
- Speed and satisfaction of operations for customers, no delays and queues, no interactions with bank staff required.
- A Moody's report pegged the impact of electronic transactions to 0.8% increase in GDP for emerging markets and 0.3% increase for developed markets because of increased velocity of money

An increased use of credit cards instead of cash would primarily enable a more detailed record of all the transactions which take place in the society, allowing more transparency in business operations and money transfers.

### **This Will Eventually have the Following Chain Effect**

1. Improvement in credit access and financial inclusion, which will benefit the growth of SMEs in the medium/long run.
2. The increased use of credit cards will definitely reduce the amount of cash that people will carry and as a consequence, reduce the risk and the cost associated with that.
3. A shift away from cash will make it more difficult for tax evaders to hide their income.
4. The availability and quality of telecom network will be improved.
5. Millions of new users of the country will enter the digital economic grid.

### **Challenges in Making India a Cashless Economy**

- Availability of internet connection and financial literacy.
- Though bank accounts have been opened through Jan Dhan Yojana, most of them are lying un operational. Unless people start operating bank accounts cashless economy is not possible.
- India is dominated by small retailers. They don't have enough resources to invest in electronic payment infrastructure.
- The perception of consumers also sometimes acts as a barrier. The benefit of cashless transactions is not evident to even those who have credit cards. Cash, on the other hand, is perceived to be the fastest way of transacting for 82% of credit card users. It is universally believed that having cash helps you negotiate better.
- Most card and cash users fear that they will be charged more if they use cards. Further, non-users of credit cards are not aware of the benefits of credit cards.
- Indian banks are making it difficult for digital wallets issued by private sector companies to be used on the respective bank websites. It could be restrictions on

using bank accounts to refill digital wallets or a lack of access to payment gateways. Regulators will have to take a tough stand against such rent-seeking behaviour by the banks.

### **Suggestions**

- Abolishment of government fees on credit card transactions; reduction of interchange fee on card transactions; increase in taxes on ATM withdrawals.
- Tax rebates should be given for consumers and for merchants who adopt electronic payments.
- People will only shift when it's easier, certain and safe to make cashless transactions, therefore usage electronic devices should be made user friendly.

### **Conclusion**

Though the people of the nation stumbled during the instant execution of demonetisation, weeks after the progress of its purpose made us to understand and to adopt digitalization process that includes digitalized transactions, etc. Certainly eradication of black money and corruption could be vanished out of the nation. RBI has also issued licences to open new-age small finance banks and monitoring the circulation of new notes for the sufficient need of the people.

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## DEMONETISATION IN TOURISM AND HOSPITALITY INDUSTRY

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### Abstract

*The hospitality industry is a broad category of fields within service industry that includes lodging, event planning, theme parks, transportation, cruise line, and additional fields within the tourism industry. The hospitality industry is a multibillion-dollar industry that depends on the availability of leisure time and disposable income. A hospitality unit such as a restaurant, hotel, or an amusement park consists of multiple groups such as facility maintenance and direct operations. In looking at various industries, "barriers to entry" by newcomers and competitive advantages between current players are very important. Among other things, hospitality industry players find advantage in old classics (location), initial and ongoing investment support (reflected in the material upkeep of facilities and the luxuries located therein), and particular themes adopted by the marketing arm of the organization in question (for example at theme restaurants). Also very important are the characteristics of the personnel working in direct contact with the customers. The authenticity, professionalism, and actual concern for the happiness and well-being of the customers that is communicated by successful organizations are a clear competitive advantage.*

### Introduction

The Indian tourism and hospitality industry has emerged as one of the key drivers of growth among the services sector in India. Tourism in India has significant potential considering the rich cultural and historical heritage, variety in ecology, terrains and places of natural beauty spread across the country. Tourism is also a potentially large employment generator besides being a significant source of foreign exchange for the country. The industry is expected to generate 13.45 million jobs. Across sub-segments such as Restaurants (10.49 million jobs), Hotels (2.3 million jobs) and Travel Agents/Tour Operators (0.66 million). The Ministry of Tourism plans to help the industry meet the increasing demand of skilled and trained manpower by providing hospitality education to students as well as certifying and upgrading skills of existing service providers. India has moved up 13 positions to 52nd rank from 65th in Tourism & Travel competitive index.

### Market Size

India's rising middle class and increasing disposable incomes has continued to support the growth of domestic and outbound tourism. Total outbound trips increased by 8.7 per cent to 19.9 million in 2015. Inbound tourist volume grew at a Compound Annual Growth Rate (CAGR) of 6.8 per cent during 2010-15. Foreign Tourist Arrivals (FTAs) in India increased 11.8 per cent year-on-year to 670,000 tourists in August 2016, while Foreign Exchange Earnings (FEEs) from tourism increased 13.1 per cent year-on-year to Rs 12,903 crore (US\$ 1.92 billion), according to data from the Ministry of Tourism. Tourist arrivals in India on e-Tourist Visa (e-TV) grew by 196.6 per cent year-on-year to 66,097 tourists in August 2016, attributable to the introduction of e-TV for 150 countries as against the earlier coverage of 113 countries, according to data from the Ministry of Tourism. Online hotel bookings in India are expected to double by 2016 due to the increasing penetration of the internet and smart phones#.

## Investments

The tourism and hospitality sector is among the top 10 sectors in India to attract the highest Foreign Direct Investment (FDI). During the period April 2000-March 2016, the hotel and tourism sector attracted around US\$ 9.23 billion of FDI, according to the data released by Department of Industrial Policy and Promotion (DIPP). With the rise in the number of global tourists and realizing India's potential, many companies have invested in the tourism and hospitality sector. Some of the recent investments in this sector are as follows:

- The first Incredible India Tourism Investment Summit 2016, which was organized from September 21-23, 2016, witnessed signing of 86 Memoranda of Understanding (MoUs) worth around Rs 15,000 crore (US\$ 2.24 billion), for the development of tourism and hospitality projects.
- The Ministry of Tourism has approved projects worth Rs 450 crore (US\$ 67.10 million) under the Swadesh Darshan scheme, for the improvement and creation of tourism infrastructure in Madhya Pradesh, Uttarakhand, Tamil Nadu, Uttar Pradesh and Sikkim.
- Accor Hotels, Australia's largest hotel operator has entered into an agreement with the Australia India Travel & Tourism Council (AITTC) with a view to strengthen and promote tourism between Australia and India.
- Global hospitality major Carlson Rezidor Hotel Group, which is also the largest foreign hotel brand in India by number of hotels, plans to increase its total count to 120 hotels in India by 2020.
- Marriott International Inc, the US-based hotel chain, is now looking for expanding its operations in North India, including prominent cities in Uttar Pradesh like Kanpur, Varanasi and Agra.
- Steigenberger Hotels, a German luxury hotel company, and MBD Group, a Delhi-based firm which runs 5-star Radisson Hotels in Noida and Ludhiana, have formed a joint venture to build five luxury hotels and manage another 15 luxury hotels in India by 2030.
- Keys Hotels, a premium brand of Berggruen Hotels, plans to launch three new hotels in India at Vishakhapatnam, Calicut and Jaipur, and further add up to 10 Keys Hotels in the country by the end of FY 2017.
- Stayzilla, a budget hotels and homestays aggregator, has raised over US\$ 13 million in Series C round of funding from Matrix Partners and Nexus Ventures, which will be used to improve product, technology and marketing initiatives for its alternate stay business.
- Travel Tripper, a US-based hotel technology firm, has entered the Indian market by setting up its second global delivery centre outside the US in Hyderabad, which will serve as a development and client service centre for the company's worldwide operations.
- Indian Railway Catering and Tourism Corporation (IRCTC) has partnered with OYO Rooms, India's largest branded network of hotels, to provide standardised accommodation options to train travellers through its convenient booking platform.
- Ctrip.com, China's largest travel portal, has bought a stake in India's largest travel portal MakeMyTrip for US\$ 180 million via convertible bonds, which allows Ctrip to increase its share in MakeMyTrip up to 26.6 per cent.
- Global investment banking major Goldman Sachs has invested Rs 441 crore (US\$ 65.76 million) to acquire an equity stake in Gurgaon-based hotel development and investment start-up SAMHI Hotels which will help fund SAMHI's expansion plans.
- Thai firm Onyx Hospitality and Kingsbridge India hotel asset management firm have set up a joint venture (JV) to open seven hotels

in the country by 2018 for which the JV will raise US\$ 100 million.

- Goldman Sachs, New-York based multinational investment banking fund, has invested Rs 255 crore (US\$ 38.02 million) in Vatika Hotels.

### **Government Initiatives**

The Indian government has realised the country's potential in the tourism industry and has taken several steps to make India a global tourism hub. Some of the major initiatives taken by the Government of India to give a boost to the tourism and hospitality sector of India are as follows:

- The Union Cabinet has approved a MoU between India and South Africa, aimed at expanding bilateral cooperation in the tourism sector through exchange of information and data, establishing exchange programmes and increasing investments in the tourism and hospitality sector.
- The Ministry of Tourism plans to revise its guidelines to exempt homestays from service tax or commercial levies and make their licensing process online, which is expected to encourage people to offer homestays to tourists.
- The Union Cabinet has approved the signing of Memorandum of Understanding between the Ministry of Tourism of India and the Ministry of Trade Industry and Tourism of Colombia in order to boost cooperation in the field of tourism between the two countries.
- The Central Government has given its approval for signing of a MoU between India and Cambodia for cooperation in the field of tourism with a view to promote bilateral tourism between the two countries.

- The Heritage City Development and Augmentation Yojana (HRIDAY) action plans for eight missions cities including Varanasi, Mathura, Ajmer, Dwaraka, Badami, Vellankini, Warangal and Amaravati have been approved by HRIDAY National Empowered Committee for a total cost of Rs 431 crore (US\$ 64.27 million).
- Government of India plans to cover 150 countries under e-visa scheme by the end of the year besides opening an airport in the NCR region in order to ease the pressure on Delhi airport.
- Under 'Project Mausam' the Government of India has proposed to establish cross cultural linkages and to revive historic maritime cultural and economic ties with 39 Indian Ocean countries.

### **Road Ahead**

India's travel and tourism industry has huge growth potential. The tourism industry is also looking forward to the expansion of E-visa scheme which is expected to double the tourist inflow to India. Rating agency ICRA Ltd estimates the revenue growth of Indian hotel industry strengthening to 9-11 per cent in 2015-16. India is projected to be the fastest growing nation in the wellness tourism sector in the next five years, clocking over 20 per cent gains annually through 2017, according to a study conducted by SRI International. Exchange Rate Used: INR 1 = US\$ 0.0149 as on September 21, 2016

### **Reference**

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## RETAILER'S IMPACT OF DEMONITIZATION (IMPACT OF DEMONETIZATION IN SERVICE SECTOR)

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### Abstract

*The argument posited 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 perverse incentive structure in the 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. To affect many problems of retailers for exchange of money transaction for organized and unorganized retail. Further, the impact of such a move would vary depending on the extent to which the government decides to demonetize. This paper elucidates the impact of such a move on the availability of credit, spending, level of activity and retailers impact.*

**Keywords:** demonetization, cashless transactions, credit, retailers impact.

### Introduction

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. From a market perspective, we think that this is a very welcome move by the government and which has taken 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 now 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 (quite unlikely though) and that the cash component of the shadow economy is also proportional (it could be higher), 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 accounted for by paying the relevant tax and penalties or would get extinguished. There are higher chances of larger proportion of this unaccounted currency getting extinguished as the tax rate and subsequent legal issues could be prohibitively high for such money.

### Objectives of the Study

- To analyze the system of retailing process
- To measure the retailer's benefits and problems demonetization
- Current scenario retailers development activities and changes for demonetization

### Sampling

The study is based on the primary data collected from the sample of Retailers. But the researcher covered a sample size of 80 respondents, because of the time plays have in data collection.

### Retail Industry in India

The Indian Retail Industry is the largest among all the industries, accounting for over ten

per cent of the country's GDP and around eight per cent of the employment. The Retail Industry in India has come forth as one of the most dynamic and fast paced industries with several players entering the market. But all of them have not yet tasted success because of the heavy initial investments that are required to break even with other companies and compete with them. The Indian Retail Industry is gradually inching its way towards becoming the next boom industry. The total concept and idea of shopping has undergone an attention drawing change in terms of format and consumer buying behavior, ushering in a revolution in shopping in India.

### **Unorganized Retail Sector**

The retail industry in India has undergone a rapid growth from unorganized sector to the organized sector since the year 2000. Unorganized retailing has been existing in India since ages. According to a recent survey by some of the retail consulting bodies, an overwhelming proportion of the Rs. 400,000 crores retail markets are Unorganized. In fact, only a Rs. 20,000 Crores segment of the market is organized. As much as 96% of the 5 million plus outlets have less than 500 sq.ft. area. Unorganized sectors include Weekly Market, Kirana Store, Street Vendors, Public Distribution System, Mandis etc. Malls are going out of the way to provide the best possible facilities, in terms of infrastructure to customers so as to enable them to have a wonderful shopping experience. "Consumer is the King" is the mantra of any retailer today

### **Organized Retail Sector**

Organized retail sector in India is growing at a fast rate. The number of retail chains setting up shops is increasing day by day. This is a sure indication that organized retailing is going to be the future in India. The organized retail sales volume in 2004-05 had just about 2% share of the total retail sale and was estimated at Rs 15,000 Crore. However, by the year 2009-10,

the organized retail sector is likely to reach sales turnover of Rs 45,000 Crore, which translates into an increase in the share of the organized retail sector from present level of 2% to 20% in the next 4.5 years. Thus, the organized retail industry is indeed poised for the phenomenal growth in the next few years. Among the markets all over the world, India is considered as the fifth most attractive market for retail. A large population, growing economy, increasing spending by the large middle class of around 300 million consumers, availability of consumer credit, foreign investments coming in, increased spending in general, changing habits and lifestyles are some of the factors contributing to the growth of organized retail.

### **Journey of Organized Retail in India**

**Source:** Ernst & Young

Year	Growth	Function
2000	First Phase	Entry Growth, Expansion, Top line focus
2005	Second Phase	Range Portfolio, Former options
2008	Third Phase	End to end supply chain management, Backend operation Technology, Process
2011	Fourth Phase	M&A, Shakeout, Consolidation, High investment

The drivers for the impending retail boom or revolution are many. The increasing purchasing power of the Great Indian Middle Class is the major reason for retail rush that is being witnessed. Fuelling this fact is the changing demography of the Indian populace. The percentage of young people in the country is increasing. It pretends well for the retail business as it is the young people who buy more than the old. Again the percentage of women in the population is showing an increasing trend. This again is good news for the retail market as women are more avid shoppers compared to men folk. The spread of the visual media is contributing its might in spreading visibility of various consumer goods to the public which heighten their aspirations to consume more and

to shop in more congenial and luxurious environment.

### **Demonetization**

Demonetize means a fall in the value of domestic currency in terms of foreign currency/currencies. For example, suppose the exchange rate between rupee and dollar is Rs 50= 1 \$. If this exchange rate is fixed at Rs. 55= 1\$ then it is called demonetize/ devaluation of rupee. Earlier Rs.25 could purchase a dollar and now more rupees (rs.30) are required to get a dollar. So the value of rupee in terms of dollar has declined.

### **Real Implications of Demonetize**

1. It helps to boost exports.
2. It will lead to higher cost of imported goods and make some of the capital extensive projects more expensive to execute.
3. It will increase cost of dollar loans taken by companies and increase foreign debt.
4. It will slow down the overall economic growth by increasing the interest rates and dissuade flow of FII's.

### **History about Indian Rupee and Its Exchange Rate with US \$**

From 1950 to 1973 Indian rupee was linked to British pound. In 1966 and 1973 Demonetize happened. On 24th September 1975, the connection between Indian rupee and pound was broken. In 1975, the rupee ties to the pound sterling were disengaged. India established a float exchange regime. With the rupee's effective rate placed on a controlled, floating basis and linked to a "basket of currencies" of India's major trading partners. Indian rupee and its exchange rate historically.

1950 – 4.79 Indian rupee to 1 American dollar
1955 – 4.79 Indian rupee to 1 American dollar
1960 – 4.77 Indian rupee to 1 American dollar
1965 – 4.78 Indian rupee to 1 American dollar
1970 – 7.56 Indian rupee to 1 American dollar
1975 – 8.39 Indian rupee to 1 American dollar
1980 – 7.86 Indian rupee to 1 American dollar
1985 – 12.36 Indian rupee to 1 American dollar
1990 – 17.50 Indian rupee to 1 American dollar

1995 – 32.42 Indian rupee to 1 American dollar  
 2000 – 44.94 Indian rupee to 1 American dollar  
 2005 – 44.09 Indian rupee to 1 American dollar  
 2010 – 44 to 50 Indian rupees to 1 American dollar. Before 2011 India had faced two major demonetize that is in the year 1966 and 1991. So let's understand the reasons and the measures adopted by government for the major demonetizes that took place in India.

### **Present Demonitization**

On 8 November 2016, India's Prime Minister Narendra Modi announced the Government of India's decision to cancel the legal tender character of ₹500 and ₹1,000 banknotes with effect from 9 November 2016. He also announced the issuance of new ₹500 and ₹2,000 banknotes in exchange for the old banknotes. While the announcement essentially rendered the ₹500 and ₹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:

- a) Exchange of old currency notes for new 500 and 2,000 currency notes has been permitted until 31 December 2016 (i.e. 50 days from the date of the announcement)
- b) 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
- c) Cash withdrawals have been limited to ensure adequate supply of new currency notes
- d) 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

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.

**1. Gender Wise Classification:** The out of 80 respondents, the majority 62.5 Percentage are male and 37.5 Percentage are come under the female category

**2. Affected By Regular Customer of Retail**

**Shop:** That out of 80 respondents, the majority of 57.5 Percentage are regular customers affected by after demonetization and the remaining 42.5 Percentage are not regular customer.

**3. Fter Demonitization Product Price**

**Changes** That out of 80 respondents, 20 respondents are product high price, 44 respondents product are reasonable price and the remaining 16 respondents products low price.

**4. Demonetization affected By The Retail**

**Shop** That out of 80 respondents, 42 respondents are highly affected by sales, 12 Medium affected for sales and the remaining 26 respondents are low affected by sales.

**5. Maintaining the Bank Account of**

**Retailers** That out of 80 respondents, the majority of 70 Percentage are maintaining the bank account and the remaining 30 Percentage are not maintaining the bank account.

### Summary of Findings

1. Majority of the result 50 respondents are male in flipkart.
2. Majority of the 56.5 percentage of regular customer affected by the demonetization on retail shop
3. Majority of the result 55 percentage of reasonable price of the product.
4. Majority of the result 52.5 percentage of Highly affected sales by demonetization
5. Majority of the result 70 percentage of retailers have maintaining the bank account

### Suggestions

1. The Government give the card swipe machine in low price.
2. Increase the currency of all rupees notes.
3. All Citizen have bank account with free of cost opening of bank account.

### Conclusion

The demonetization undertaken by the government is a large shock to the economy. The impact of the shock in the medium term is a function of how much of the currency will be replaced at the end of the replacement process and the extent to which currency in circulation is extinguished. While it has been argued that the cash that would be extinguished would be "black money" and hence, should be rightfully extinguished to set right the perverse incentive structure in the economy, this argument is based on impressions rather than on facts. The retailers has affected on the sales and the like. It is must to the Indian government at the time affected only on the poor economic people. While the facts are not available to anybody, it would be foolhardy to argue that this is the only possibility. As argued above, it is possible that these cash balances were used as a medium of exchange.

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## DEMONETISATION: IMPACT ON BANKING SECTOR

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### Abstract

*The argument posited in favour of demonetisation is that the cash that would be extinguished would be “black money” and hence, should be rightfully extinguished to set right the perverse incentive structure in the 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. This paper elucidates the impact of such a move on the availability of credit, spending, and level of activity and government finances.*

**Keywords:** demonetisation, cashless transactions, credit, tax evasion.

### Introduction

The Government has implemented a major change in the economic environment by demonetising the high value currency notes – of Rs 500 and Rs 1000 denomination. These ceased to be legal tender from the midnight of 8<sup>th</sup> of November 2016. People have been given up to December 30, 2016 to exchange the notes held by them. The proposal 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 cash in circulation would be substantially squeezed may be relaxed somewhat. The reasons offered for demonetisation 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”.

To understand the effects of these dimensions, it is important to first understand what is it that cash does in the economy? There are broadly four kinds of transactions in the economy: accounted transactions, unaccounted transactions, those that belong to the informal sector and illegal transactions.

The first two categories relate to whether transactions and corresponding incomes are reported for tax purposes or not. The third category would consist largely of agents whose incomes are below the exemption threshold and therefore do not have any tax liabilities.

Turning to the effects of demonetisation, the first major and sustained effect of demonetisation would follow from the extent to which the currency is extinguished and what this currency was being used for. It is being assumed that all currency which will potentially be extinguished would be currency being used as a store of value in the first and second category of transactions in the table above. If these assumptions are correct, then the impact of extinguishing this currency would be limited. On the other hand, if the currency is used for any of the other transactions in the economy, either as a store of value or more importantly, as a medium of exchange, then the impact on the economy and the agents in the economy could be sustainable. The spillover effect would be felt by the organised as well since the consumption from the incomes generated would extend to the formal sector as well. The next question to ask would be: would these activities/agents choose to come within the folds of the formal sector as a result of the



changed economic environment or would they remain outside or worsen the activities and would be extinguished along with the losses generated from the cash that was extinguished.

The second change discussed above, from demonetisation would arise if only a part of the currency deposited in the banks is returned to circulation as cash. This change, if it is executed, would dramatically change the economic environment in the country by forcing agents to move from using cash as medium of exchange to using cash substitutes. This appears to be a real possibility given that the Finance Minister as well as the Governor of the Reserve Bank of India have repeatedly emphasised that agents should be moving to the use of cashless medium where there are no problems in comparison to the cash based medium. For instance, The Hindu reported that "Reserve Bank of India (RBI) has urged citizens to switch to alternative modes of payments such as pre – paid cards, credit and debit cards, mobile banking, and inherent banking. In a press conference on November 12, the Union Finance Minister too said that "Those in businesses should start using digital payment gateways, cards and banking system. Life will become simpler in the new financial system that is the only viable option".

### **Short – Term and Medium – Term Impacts**

#### **Short – Term Impact**

The demonetisation, by removing 86 per cent 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 transaction in the economy, the above would mean a severe contraction in income and consumption in the economy.

There are likely to be two spin – offs from this change – one, there would be some increase in tax collections in the short term, and second;

various IOUs could emerge as currency substitutes. To the extent people attempt to get rid of unaccounted cash balances through purchase of goods and services and/or payment of property taxes, one witness a spurt in tax collections in indirect taxes as well as property tax in the month after demonetisation which would disappear thereafter. There is evidence already that property tax collections in some cities are higher than last year. Similarly, in the case of currency substitutes, at MCD tax collection centres at the border, people are being given IOUs in lieu of the balance they were entitled to, which would be valid for six months.

#### **Medium – Term Effects**

In the medium term, the effects would be related to the extent to which the currency is not replaced within the economy. If the entire currency is replaced, there would not be any major effects on the economy. However, it is to be expected that the entire currency would not be replaced – to the extent currency is extinguished and to the extent some of the currency remains as bank deposits, there would be some impact of economy. The first effect would be a compression of the economy to the extent the extinguished currency was working as a medium of exchange. The currency that is placed in the banks but not withdrawn, it is argued, would generate an expansion in deposits in the economy. In the discussions on demonetisation, there is a consistent reference to the resultant increase in credit creation in the economy. Like Finance Minister Arun Jaitley says, "Bank deposit will increase and they will have more capacity to support the economy". The total cumulative credit that can potentially be generated is defined in terms of the reserve ratio.  $\text{Total credit} = \text{incremental deposit generated}$ .

In India, the cash reserve ratio is 4 per cent while there is a statutory liquidity ratio of 22 per cent. In determining the credit creation, it is important to take into account only the CRR and

the additional credit creation can be 25 times the amount of money deposited in the banks as a result of the proposed demonetisation. This amount however, will be generated only if there is exists an equivalent demand for credit in the economy.

**Table 2 Potential credit creation based on Reserve Ratios**

Percentage remaining in account	Value in account	Potential credit creation	Potential credit as multiple of stock of debt today
70	992600	24815000	3.082345
60	850800	21270000	2.64201
50	709000	17725000	2.201675
40	567200	14180000	1.76134
30	425400	10635000	1.321005

**Table 3 Potential credit creation based on historical trends**

Percentage remaining in bank account	Value in bank account	Credit potential	% of total credit	% of total incremental credit
100	1418000	1684119	20.9	198.4
90	1276200	1515707	18.8	178.6
80	1134400	1347295	16.7	158.8
70	992600	1178883	14.6	138.9
60	850800	1010471	12.6	119.1
50	709000	842059	10.5	99.2
40	567200	673648	8.4	79.4
30	425400	505236	6.3	59.5

### Transition Issues

There are number of transition issues that need to be managed for this transition to be effective:

**Transition issues for banking sector:** There are multiple issues here.

- a. 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. These models, however, might need to be altered in the new regime since the

character of the new deposits that come in to bank would be different from the pre – existing deposits. In the latter, while a fraction of the deposits would be for transactional purposes – e.g. salary earners – another fraction would be depositing only savings into the account. By eliminating high value currency notes, these agents who were operating through cash, would now have to move to non – cash instruments and hence, the balances in their accounts would not be savings but transaction values which will be retained in the account for shorter durations of time. The banks therefore would need to re – model their decisions on how much of the deposits can be lent out and for what duration. It is, for instance possible, that a large proportion of the deposits would be retained for short – term lending and can even be dedicated to the call money market.

- b. Second, while 1/reserve ratio defines the potential maximum amount of credit that can be generated in the economy, the actual credit generation would be defined both by the demand for credit and the extent to which cash intervenes in the functioning of the economy. However, if on receipt of payment, the agents withdraw the money to cash and make payments, only a fraction of the credit /deposit will return to the banking system.
- c. A third issue that might arise as a transition issue because of the mismatch between people's preferences for cash and the availability of cash. In the interim, until people adjust to the use of non – cash instruments, there would be an increased demand for the cash that is available and that might generate a situation where the agents have to pay a premium to access legal tender. While this can be considered a transition issue, there are two different implications of a such a development:

- (i) If the premium on cash is high, it would encourage both the shift to non – cash instruments on one hand, and to informal substitutes of cash on the other.
- (ii) This might undermine the confidence that people have in the currency and hence, encourage move to other currencies.

### Mode of Payment and Spending Behaviour

There is literature that point out to the possibility of changes in spending behaviour as a result of moving to instruments other than cash. There are many substitutes for cash in the Morden economy ranging from cheques, debit cards, pre-paid cards, credit cards and mobile wallets. When compared to cash, these instruments differ in a number of key characteristics.

Temporal separation or degree of coupling is the extent to which a purchases and the payment for the transaction from resources are separated in time. If the two are de-coupled, people may not perceive a sense of separation from money at the time of incurring the expenditure and hence may overspend. The second characteristic is related to the pain of payment flowing from salience. It is argued that people perceive the pain of payment depending of the tangibility or salience of the outflow. A third feature is the stringency of budget constraint – while cash limit one's ability to spend to the amount of cash in hand, a debit card expands it to the balances available in the account and a credit card further relaxes it to include future earnings as well. The characteristics identified of various forms of payments are summarised below as presented in Braga et al (2013).

**Table 4 Features of payments systems**

Payment Mechanism	Salience of Form	Salience of amount	Transparency	Temporal Separation	Temporal Orientation
Cash	Very high	High	High	No, Do 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	No, Do not exist	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
Store Value Card	Low	Low	Low	Medium	Perception of present-present

Summarise the results of some of these studies which compare the behaviour of consumers using alternative instruments as follows:

- a. 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.
- b. In a comparison of credit cards with cash, this effect is more pronounced.

- c. Credits cards are often are associated with more spending resulting in an increase in debt as well.
- d. Further, spending with cards seems to encourage spending on non-essentials.

### Conclusions

It is likely that there would be a spurt in the banking deposits. While interpreting the phenomenon, however, one has to keep in mind

that large parts of their deposits were earlier used for transactional purposes. For example, if a small trader deposits 2 lakh rupees in the Jan Dhan account since the currency in which he held these balances in for transactional purposes has been scrapped, it would be incorrect this success of the programme in bringing in people who were hiding black money. Nor can they be interpreted as additional balances that banking sector can lend out on the same basis as earlier deposits, since the deposits now would remain in accounts for much shorter periods that deposits based on savings would be.

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## DEMONETISATION'S EFFECT ON INDIVIDUAL'S EMOTIONS

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### Abstract

*Whereas a lot is being discussed about the economic impact of demonetisation, no one seems to have examined the processes of individual and their perception related to this initiative. It has long been known that we as human beings do not respond to incidents purely based on what the objective parameters of the situation are, but rather on the way we perceive it to be. Our perception, in turn, is colored by a series of psychological and social biases. Centre's demonetisation decision is taking toll on the mental health of the public. Therefore this article deals on emotional impact of demonetisation.*

**Keywords:** *Demonetisation, Emotional Impact, Individual's Emotions, Psychological and Social biases.*

### Introduction

On Nov 8, 2016, the Indian Government announced the demonetisation of two major bills of Indian currency—INR 1000 and INR 500—which together accounted for 86% of cash is in circulation in the Indian economy. In the subsequent weeks, this demonetisation has had an enormous effect on the day to-day lives of Indian people, including on their ability to purchase essential commodities and services, and has also been met with complex and unexpected implementation issues. Banks and ATMs across the nation are struggling to meet demand to exchange the old bills.

In addition, a high proportion of India's rural, tribal, and migrant populations do not have bank accounts or debit or credit cards, which the government has recommended as alternative options to pay for essential expenses. Without access to the right forms of currency, limited access to essential and lifesaving medicines will likely hit people hard.

Demonetization is a deep psychological strike on black money. Demonetization move has killed the very motivation of those people who have the ability to generate black money.

### Demonetisation and People's Emotions

After November 8 two particular places had lots of walk-ins? Could you guess?

- One was the banks which is a kinder garden question.

- The second one was psychiatric hospitals.

After the government's move to demonetize, many people have literally gone into shock and are unable to deal with the present scenario. With business coming to a standstill, a lot of people are finding it difficult to comprehend the situation and are seeking medical aid. Delayed marriages, slumping businesses and even deaths have been linked to demonetisation.

- **Reports of Psychiatrists**

Psychiatrists in the city, on an average, are receiving three to four patients above 45-year-old every day.

- **City-based psychiatrist Dr Rajeev Gupta said he was receiving two-three patients daily**

"It was not expected and people are unable to come out of shock. Some have issues in adjusting the money, while others are in shock as their business is not moving. Economy has come to a standstill," he said. Not only this, patients are also worried as many of them are unable to do transactions online, he said.

- ***Another city-based clinical psychiatrist Dr Isha said she was also getting patients who were unable to cope up with the current financial situation***

"They are unable to sleep and are always thinking about the current financial emergency. People, who are emotionally weak, should seek medical advice and take medication regularly. Doing yoga can help in relaxing the mind and the body and one should unwind in the way that best suits them by listening to music or reading a book," she said.

- ***Senior consultant psychiatrist Sanjay Garg said***

"The wholesaler fears that his entire stock will go waste, incurring him a huge loss. He was suffering from panic and anxiety attacks and thought he will die," Garg said that most of such patients are from middle and upper-middle class families belonging from rural Bengal where the reach of plastic money is limited.

- ***Another psychiatrist Santasree Gupta said***

"One of her patient is a 50-year-old widow who inherited Rs 30 lakh in cash savings from her deceased husband". She had plans to buy a flat and spend the rest of the amount in her son's marriage. And now she is feeling very insecure. She had to put her on short-term medication to help her control the stress. Psychiatrists fear cases of panic attacks; anxiety and depression will increase as the deadline for depositing the scrapped notes approaches in December.

#### ***Some real examples about the impacts of demonetisation***

- Attendance at most colleges in and around Hyderabad has fallen by about 50 percent because there is no change to pay public transport like a bus or auto rickshaw.
- A father whose daughter's wedding is fixed in November came to meet Dr C Venkata Suresh, a psychiatrist at Hyderabad's Yashoda Hospital. He was undergoing acute

stress due to his inability to access his own money kept in the bank. This was before the government relaxed the withdrawal limit to Rs 2.5 lakh for a wedding.

- Some deaths are claimed to be owing to exhaustion after standing for long hours in serpentine queues.
- There have also been reports of suicide and even a murder over demonetisation in West Bengal.
- Sukhdev Singh died of a heart attack just before four days of his daughter's marriage in Tarn Taran, Punjab, as he was unable to buy groceries and other items due to shortage of new currency notes.
- A two-year-old died in Sambhalpur, Odisha, after an auto rickshaw driver refused to take the family to hospital as they did not have lower denomination notes to pay the fare.
- Lakshminarayana, 75, collapsed and was declared dead while waiting in a queue for over two hours outside a bank in Secunderabad, Telangana.
- Surendra Sharma, a senior citizen from Aurangabad, Bihar, died while waiting in a bank queue.
- Halke Lodhi, a farmer in Chhatarpur district of Madhya Pradesh, committed suicide as he did not have money to buy fertilisers and seeds.
- 60-year-old Aziz Ansari, a factory worker in Meerut, died of a heart attack while waiting outside a bank.
- A retired school teacher, Raghunath Verma (70), in Jalaun, eastern Uttar Pradesh, died waiting outside a bank when he went to withdraw money for meeting the marriage expenses of his daughter.
- In Bulandshahr hospital, a child died because the parents had only old currency notes.
- 24-year-old Rizwana from north-east Delhi hanged herself as she was upset about not being able to exchange currency for three days.

- As she was unable to buy groceries to feed her family, a 50-year-old Surat woman committed suicide.
- Shabana, a 20-year-old woman from Shamli (west UP), committed suicide after her brother returned home without exchanging currency notes.
- A middle-aged woman from Chikballapur district of Karnataka committed suicide after the Rs 15,000 she had taken to the bank for exchange were allegedly lost or stolen.
- A farmer from Raigarh, Chhattisgarh committed suicide as he was upset over not being able to exchange Rs 3,000, which he was supposed to send to his stranded children in Tamil Nadu.
- A 69-year-old man collapsed and died of heart attack after waiting in a queue to exchange currency notes outside a bank in Limbdi, Gujarat.
- A old farmer from Tamilnadu, died due to heart attack while he was standing in queue to exchange his old notes.

### Intrinsic Worth of Demonetisation

*"Though the process of Demonetisation has a strong frustrating impact on people's emotion, its progress is bull's-eye as for which it is designed."* Despite inconvenience and pain, support for government's currency demonetisation increases. Demonetization is advantageous in short, medium and long term.

After experiencing the 500/1000 currency demonetisation scheme for a week, how do you feel about it?

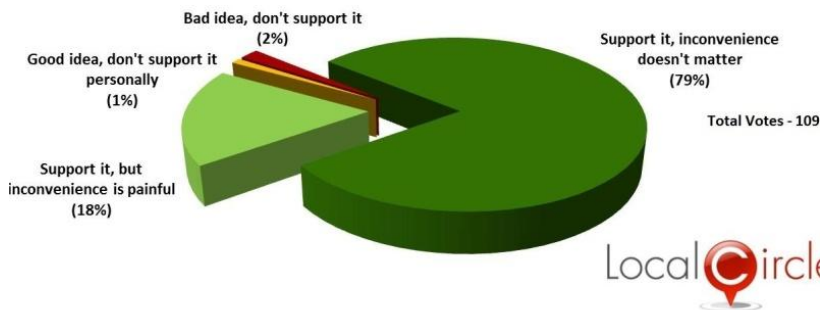


Figure 1

Due to people disclosing their income by depositing money in their bank accounts government gets a good amount of tax revenue which can be used by the government towards the betterment of society by providing good infrastructure, hospitals, educational institutions, roads and many facilities for poor and needy sections of society.

Demonetization seeks to bring in a sharp, sudden but long lasting behavior change that encourages electronic payments.

That means a lot many transactions would get reported and that would lead to a direct increase in income taxes.

An aggressive RBI can now reduce base rate by 2 - 3 percentage points that would lead to a reduction in interest burden on farm loans, mudra loans, housing loans and corporate loans thereby benefiting farmers, SME, middle class and Corporates.

Demonetization would lead to generation in employment. Government can now lend massively to infrastructure sector through the recapitalized Public Sector Banks. This would generate a lot of employment opportunities thereby moving more people out of poverty.

**Table 1 People's Support on Demonetisation**

<b>98%</b>	Say black money exists in India
<b>99%</b>	Say Corruption black money needs to be fought and eliminated
<b>90%</b>	Says governments move to tackle black money is brilliant/nice
<b>92%</b>	Say Modi government's efforts against corruption are very good
<b>90%</b>	Support Modi government's demonetisation move.
<b>92%</b>	Think demonetisation will have an impact on curbing black money

**Interpretation**

According to the above table, 99% Say Corruption black money needs to be fought and eliminated and 90% of people accept the government's move as a brilliant move to eradicated corruption.

**Suggestions**

- As demonetisation could do its favour for the nation, maximum people suggest that government has to continue such process without any withdrawals like its previous policies.
- Fund allocations should be equal for both nationalized and private banks.
- Number of ATM centers can be opened in the rural areas.
- Intensive and regular technical assistance is needed in all the nationalized banks.

**Conclusion**

Let us not allow this event to break us down, rather let us use this as an opportunity to connect, help and emerge stronger and more resilient than before.

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## A STUDY ON IMPACT OF DEMONETIZATION IN AGRICULTURAL LABOURS IN MADURAI SOUTH TALUK

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### Abstract

*A mere one per cent increase in India's rural income translates to a mind-boggling Rs 10,000 crore of buying power. The rural consumers are known to earn low Income, have low level of literacy, low level of brand awareness, asymmetric information, inadequate communication and transportation facilities. The Rural markets are now expanding in TamilNadu with ever greater penetration index, as the growth seems stunted in the urban . In this study, Impact of Agricultural Labours for demonetization in the areas of Madurai south with a sample size of 50 respondents. The study intends to identify the level of influence of various factors on the demonetization among the Agricultural Labours. The study emphasized that rural employees, gave more importance to the 'Payments' of the Agricultural Incomes they bought rather than the normative influences or social appeal vide celebrity endorsements in the mass media.*

**Keywords:** Demonetization, Agricultural Labour; Demographics; Mode of Payment;

### Introduction

The rural India offers a tremendous market potential of Agricultural sector. In Agriculture sectors have contributed 64 percent, 36 percent and 30 percent, respectively towards GDP of 690 billion in the year 2010-2011. In spite of high growth, there is decline in the employment growth, particularly the rural employment. In the agricultural sector, including the allied sector of forestry and finishing, the growth level is 2 percent during five year plan period and it is far behind the target level of 4 percent. This implies that high growth rate in all sector. This implies that serious concern because agriculture holds key to the overall socio-economic development. Unless growth is equitable, there will not be social and political stability. In mere one per cent increase in India's rural income translates to a mind-boggling Rs 10,000 crore of buying power. The rural consumers are known to earn low Income, have low level of literacy, asymmetric information, inadequate communication and transportation facilities. The Rural markets and sub-urban markets are now expanding in TamilNadu with ever greater penetration index, as the growth seems stunted in the urban markets. A study on Problems of Agricultural sector in Demonetization In this study, Rural areas of

Madurai south Taluk with a sample size of 50 respondents. The study intends to identify the level of influence of various factors on the Agricultural workers monetary aspects among the rural areas. The study emphasized that rural Consumers, gave more importance for currency utilization and his digital Transactions.

### Demonetization

Demonetization is an economic term which is used to mean the 'scrapping' of old currency notes and stripping them off their status of legal tender, usually when a new currency note or currency is being introduced in the economy of the country. This is a standard practice followed by all major economies of the world for different reasons. For instance, when the 'Euro' was introduced as the common currency of the European Union, the participating countries had effectively followed a 'demonetization' drive of their respective currencies by fixing exchange rates for the old currency to the newly introduced Euro. Indian Rupee has been demonetized various times as well. The Rs. 10,000 notes were demonetized once in January 1946 and then again in January 1978. Recently, the Rs. 500 and Rs. 1000 notes were demonetized in a surprise move on November 8, 2016.

The recent scrapping of Indian 500 and 1000 rupee currency notes has sent the entire country in a whirlpool of confusion. The country may be happy about the initiative or upset with the move, but the word 'demonetization' has recently become the trend. We bring to you the basic understanding of what the word means, when and how the demonetization of Indian Currency was brought into effect and why it is good or bad.

### **Demonetization**

Demonetisation is an economic term which is used to mean the 'scrapping' of old currency notes and stripping off their status of legal tender. There are two basic elements to this definition. One is 'scrapping of old currency notes' and 'status of legal tender'. Before we explain the same, what you need to understand that a currency note or paper currency is essentially a promissory note or a legal document that simply suggests that the payee has 'promised' to pay that amount to the payer. The same is printed on every currency note as well. This is validated by the heads of the Central Banks of the nation and in case of India, by the Governor of Reserve Bank of India. This "status" of legal tender can be scrapped for a currency note, which means that the instrument ceases to be a "legal" mode of monetary transactions and in effect loses the value associated with that instrument. In other words, until and unless the old currency is legally exchanged at the designated centers, they are equivalent to nothing more than scraps of paper.

### **Demonetization of Indian Rs. 500 and Rs. 1000 Notes (When and How)**

In a surprise move, the Indian Prime Minister, Shri Narendra Modi in his address to the nation on November 8, 2016 declared the demonetization of the Indian Rs. 500 and Rs. 1000 currency notes with effect midnight of November 8. This move sent the entire nation in a dizzy. The Hon'ble Prime Minister stated the

decision as a step to counter terrorism which was being funded by counterfeit money as well as a decisive strike against the black money being hoarded by the citizens of the country. The decision scrapped the legal tender status of the high value currency notes of INR 500 and 1000 with immediate effect and introduced new Rs. 500 and Rs. 2000 notes. After the address, the Economic Affairs Secretary, Mr. Shaktikanta Das further explained the method and means by which the old currency notes would be exchanged for new notes. It was further assessed that people should not worry about their money as demonetisation does not mean that their money has no value. All it means is that it must be exchanged for the new notes.

As per the notification, barring some public utilities like petrol pumps, hospitals, railways and airports as well as cremation and burial grounds, the use of old 500 and 1000 rupee note was discontinued. All the banks were shut for one day to effectively carry out the exchange of old currency and the ATMs across the nation were closed for two days. The government also imposed a limit of withdrawals from ATMs to Rs. 2000 per card and from banks to Rs. 10,000 per account per day upto Rs. 20,000 withdrawals per week. The limits were later revised to Rs. 2500 ATM withdrawals per day and Rs. 24,000 bank withdrawals per account per week. The use of old currency notes were also extended for use at Delhi Metro recharge counters as well as payment of property taxes and electricity bills. The government intends to exchange the old currency notes by December 30, 2016. After the date, the exchange of the old currency notes would only be possible at designated counters of RBI after submitting a declaration form to the same effect.

### **The Aftermath of Demonetisation of Indian Currency**

The move of the Modi Government received both praises and severe criticisms from every section of the society. The immediate effect of the announcement saw countrymen lining up at

the ATMs to withdraw 100 rupee notes to tide over the impending cash crunch. As per figures provided by the RBI, the banned currency constituted 86 percent of the currency in circulation in the country at the time. The entire magnitude of replacing the money in itself is a mammoth task and the pinch was felt by everyone in the immediate aftermath. The banks and ATMs opened to long queues of citizens lined up to exchange, withdraw and deposit the old currency notes. Reports were received from various part of the country about chaos regarding decline in essential services. The government has released further measures and actions and continues to do so in order to make this as convenient to the common man as possible. The Income Tax Department and the Ministry of Finance has further clarified that since it had given affair chance to all to declare their income by September 30 under the voluntary disclosure schemes, no further concessions would be given to people depositing large amounts in their accounts and all such large transactions would attract Tax scrutiny and penalty as per the law. As the drive to exchange the old currency notes continue, measures are being put in place to make the transition as smooth as possible. However, it can be judged that the sheer quantum of the money that needs to be exchanged (given the population and the amonunt of notes already in circulation) makes this a logistical juggernaut and would continue to cause discomfort. The Government and RBI are constantly working towards making this as comfortable as possible. Some of the measures include increasing the limits of withdrawals and scrapping Toll on National Highways till November 18, midnight.

### Statement of the Problem

The Present study covers the Agriculture sector in Madurai South Taluk. The socio-economic background, the Problems of agricultural labours in demonetarization, monetary benefits are studied.

### Objectives of the Study

The following are the main objectives of the study:

1. To examine the socio-Economic Background of Agricultural Workers in Madurai south Taluk.
2. To analyse the problems of Agricultural workers in respect of Mode of Payment and Monetary benefits.

### Hypothesis of the Study

The study proposes the under mentioned hypothesis

1. The Agricultural Workers are having problems in Demonetarization in their Workplace
2. The Agricultural Workers are having problems in respect of Wages in Demonetarization.

### Research Methodology

In this section, an attempt has been to describe the methodology adopted in the present study. It includes sampling technique, procedure for collection of data, method of analysis and tools of analysis.

### Result and Discussion

**Table – 1: Socio-economic factor-wise sample respondents**

S.No	Sicio – Economic Factors	No Of Respondents	Percentage(%)
1.	<b>Gender</b>		
	Male	28	56.00
	Female	22	44.00
2.	<b>Age</b>		
	18-30 years	10	20.00
	31-40years	26	52.00
	41-50years	10	20.00
	Above 50years	4	08.00
3	<b>Marital Status</b>		
	Married	36	72.00
	Un-Married	14	28.00
4	<b>Size of Family</b>		
	Less than3 members	15	30.00
	4 to6 members	25	50.00
	Above6	10	20.00

5	<b>Educational Status</b>		
	Illiterate	12	24.00
	Primary	17	34.00
	Secondary	10	20.00
	Higher-Secondary	08	16.00
	Graduation	03	06.00
6	<b>Type of Family</b>		
	Joint	32	64.00
	Neuclear	18	36.99
7	<b>Nature of Ownership</b>		
	Own House	41	82.00
	Rental House	09	18.00
8	<b>Details of Work of spouse</b>		
	Yes	42	84.00
	No	08	16.00
9	<b>Monthly Income</b>		
	Rs.3000to4000	24	48.00
	Rs.4001tototo 6000	18	36.00
	Above 6000	08	16.00
	<b>Distance from work</b>		
10	Less than 1km	27	54.00
	1to2km	12	24.00
	2to3km	06	12.00
	Above 3	05	10.00

### Period of Payment Received By Agriculture Labours

The period of Payment may differ from one rural consumer to another. Hence, the period of payment of Agricultural labours has been analyzed and the result is presented in the Table 2

**Table: 2 Period of Payment Received in Agriculture labour**

Period of Payment	No of Sample Respondents	%
Daily Wages	32	64.00
Weekly Wages	13	26.00
Monthly Wages	05	10.00
Total	50	100.00

It is inferred from the Table 2 that the majority of respondents, say 64.00 per cent, are

receiving the payments for a period of daily wages, 26.00 per cent between Weekly, 10.00 per cent for Monthly'.

The researcher has made an attempt to ascertain whether there is any relationship exists between the period of payment and their satisfied needs of sample respondents. Chi-square test has been applied to test the hypothesis. The following formula has been used for computing the chi-square value.

$$\text{Chi-square} = \frac{\sum \frac{(O - E)^2}{E}}$$

where,

O = Observed Frequency;

E = Expected Frequency

**Null Hypothesis (H<sub>0</sub>):** "There is no significant relationship between the period of payment of wages and the satisfied needs of sample respondents". **Alternative Hypothesis (H<sub>1</sub>):** "There is significant relationship between the period of payment of wages and the satisfied needs of sample respondents".

The calculated chi-square test reveals the following results:

Computed chi-square Value : 9.68

Total Value at 5% Level of significance: 7.81

Degrees of freedom : 3

Hypothesis Result : Rejected

The computed chi-square value (9.677) is more than the table value (7.815) at 5 per cent level of significance. Hence, the null hypothesis is rejected. It means alternative hypothesis is accepted. So, it is concluded that "there is significant relationship between the period of payment of wages and the satisfied needs. Moreover, the researcher has made an attempt to ascertain whether there is any significant relationship between the socio-economic factors and the period of payment of wages and the satisfied needs and it is tested by using chi-square analysis.

### Socio-Economic Factors and the Period of payment

In order to find out whether there is any association between the socio-economic factors

and the period of period of payment of wages and the satisfied needs, chi-square test has been applied. The socio-economic factors such as gender, age, marital status, educational status, family monthly income and family type have been taken for analysis. The results are furnished in Tables. The chi-square analysis is made. The hypotheses framed for this purpose is given below:

**Null Hypothesis:** There is no association between the socio-economic factors of sample respondents and the period of payment of wages and his satisfied needs

**Alternative Hypothesis:** There is association between the socio-economic factors of sample respondents and the period of payment of wages and his satisfied needs

**Table: 3 Socio-economic factors of sample respondents and the period of payment of wages and his satisfied needs**

Socio-Economic factors	Computed chi-square Value	Degrees of freedom	Result of Hypothesis
Gender	0.870	3	Accepted
Age	5.768	3	Accepted
Marital Status	1.324	3	Accepted
Educational status	10.742	10	Rejected
FamilyMonthly Income	8.846	9	Accepted
Family Type	5.215	3	Accepted

Table 4 reveals the computed chi-square value for socio-economic factors. It is inferred that the computed chi-square value is less than five per cent critical value for the socio-economic factors, viz. gender, age, marital status, educational status, monthly income and family type. Hence, the null hypothesis is accepted. So, it is concluded that there is no association between the socio-economic factors of sample respondents and the period of payment of wages and the satisfied needs. Table 5 exhibits the chi-square analysis in respect of sample respondents. The hypotheses framed are given below:

**Null Hypothesis:** There is no association between the socio-economic factors of payment

of wages and the satisfied needs

**Alternative Hypothesis:** There is association between the socio-economic factors of payment of wages and the satisfied needs

### Knowledge about Demoneterization

Knowledge is necessary for cash less transactions each and every time. There are certain sources through which peoples are obtains knowledge. How the Agricultural labours get knowledge about the Demonetization has been attempted. The important source of knowledge may be family members, friends and relatives, neighbours, media, stores, agents and so on. Table 6 shows the source of knowledge for Agricultural Labours.

**Table 4: Source of knowledge for cash less transactions of demonitization**

Sources of knowledge	No of Respondents	Rank
Employers	06	IV
Family Members	15	II
Friends and relatives	10	I
Neighbours	09	III
Media	04	V

It is evident from Table 4 that the majority of agricultural labours are obtained knowledge through the source 'friends and relatives' for cash less transactions and demonetization,. Hence, first rank has been placed to this source. Following this, the source 'family members' secures the second place. The third place goes to the source 'Neighbours', through which the sample respondents have obtained knowledge. Regarding other source of knowledge, the ranks assigned are differed, i.e. the source 'Employer' has been ranked as fourth and respondents whereas it is ranked as fifth by the Media .

### Findings

From the study, the following findings were found out:

1. The study constitutes around 44 per cent of female.
2. Respondents having the age group '31 to 40 years' dominate more in the study unit.
3. 34 per cent of respondents 'education is Primary and secondary level.
4. Casual workers account for 48 per cent in sample unit.
5. Around 48 per cent of family monthly income is between Rs.3,000 and rs.4,000.
6. The majority of family (50%) surveyed have more than four members.
7. Much variation is found in the period demonetization which is cash less transactions because they are majority in daily wages labours.
8. It is concluded that "there is significant relationship between the period of payment of wages and the satisfied needs.
9. It is found that the 'friends and relatives' is the main source of knowledge for Demonetization and cash less transactions

### Suggestions

Based on the study, the following suggestions are offered for further improvement of Demonetization and cash less transactions: The Agricultural labours are illiterate or only secondary school education category, so we must improve their education standards and they should kept knowledge about cash less transactions. The free of cost and direct access capability practices are followed by agricultural labours

### Conclusion

The Indian Agriculture has witnessed, tremendous social changes and trends, with women, to a great extent, being actively involved in the Digital process. Men and Women, whether they are working they should increased their payment practices through new innovative like self-help groups and litrecy. Although women may earn less than men, they are making buying decisions in their homes mostly.

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## DEMONETIZATION: LIFTS THE VEIL OF SECRECY

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### Abstract

*Demonetization is a process by which a denomination of currency will not be legal tender. The denominations of note will not acceptable as valid currency. The reasons of demonetization in any economy may be introduction of new currency, to stop black marketing, excess currency storage, high corruption rates, excess fake currency in the economy and others. However, with the latest round of demonetization, the common public and bankers are undoubtedly facing hardship since more than 85 per cent of currency in circulation has been rendered illegal in one single stroke. Demonetization is surely hampering the current economy and will continue to do so in the near term and will also impact India's growth for the coming two quarters but will have positive long lasting effects. In this paper, an attempt has been made to study the pros and cons of demonetization in Indian economy.*

### Introduction

The primary aim of the demonetization exercise was to tap black money. To mark the last day for depositing the demonetized notes, on December 31, 2016, the Prime Minister, in his address to the nation, fully acknowledged the great hardship suffered by common people due to the serious delay in making the new currency notes available in the banks, ATMs and rural areas, and thanked them for the faith they reposed in him in spite of such hardships. He announced a slew of financial sops to the marginalized and farmers. While he made a passing reference to black money hoarders being on the run, and about collusion on the part of a few bank and government officials, he made no mention of specifics like the government's estimates of black money and counterfeit money unearthed by the demonetization. Perhaps it was too early to arrive at such estimates with some precision. Demonetization means that Reserve Bank of India has withdrawn the old Rs. 500 and Rs. 1,000 notes as an official mode of payment. According to Investopedia, demonetization is the act of stripping a currency unit of its status as legal tender.

The reason for demonetization was:

a) To tackle black money in the economy.

- b) To lower the cash circulation in the country which is directly related to corruption in our country.
- c) To eliminate fake currency and dodgy funds which have been used by terror groups to fund terrorism in India.
- d) The move is estimated to scoop out more than Rs. 5 lakh crore black money from the economy.

### Subverting the System

Newspapers were full of reports of some sensational cases of hoarding of new currency notes, within a few days after the demonetization, even as common people could not get more than one, and then two new Rs. 2,000 notes even after standing in queues for hours. As of December 10, it was reported that a stash of Rs. 242 crore in new currency notes had been uncovered. Cases have to be investigated with the greatest speed as top priority and persons involved should be given exemplary jail terms. The investigation should reveal how the new notes, which were in such short supply, reached these hoarders in record time. The Prime Minister or his representatives should have given some details about the likely time frame for strong action against those caught, including hoarders and corrupt officials, to reassure the common man about the government's seriousness in dealing with black

money. There are two other aspects of demonetization on which clarity is required. One is the status of political funds and the other the status of donations/offerings made to temples and religious institutions, through the so-called temple hundis.

### **Political Donations as Conduit**

Political party funds are exempted from income tax, though parties are required to maintain the books of accounts, and file income returns. Moreover, they are not required to keep any details of the source of funds if the individual contributions are Rs. 20,000 or less. It is well known that almost 90% of the funds of major political parties are of this nature. Disclosure of figures about cash donations received by political parties before and after November 8, and the amount deposited in the banks by December 30, and whether any part of it will be taxed, would help in an informed debate. It may be noted that all political parties have taken a stand that they are not subject to the jurisdiction of the Right to Information Act.

### **Donations to Religious Institutions**

It would also be useful to find out the amount of cash deposited by temples after November 8 purportedly received as donations to know how funds so received will be dealt with (so as not to enable conversion of black money into white), and whether any part of such collections would be taxed.

### **The Biggest Beneficiaries - Banks**

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. 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.

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 percentage 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 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, it can be considered as a good opportunity to invest in banking stocks for long term.

### **Current Scenario**

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 2016 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.

### **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. Fake 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 upto Rs. 2.5 lakh will not come under income tax scrutiny.

### Jan Dhan Yojana

Now individuals are depositing 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.

### The Major Advantages of Demonetization are:

- a) The countries/organizations which wants to blow Indian economy generally does it by introducing the Counterfeiting currency. It is the major blow for them.
- b) Terrorists and naxallites, they are majorly financed in cash (huge cash) and that huge cash is stored somewhere underground (generally burry, especially naxallites), now they can build permanent graves to that cash stored area.
- c) Money hoarders have one option, either convert them to white or permanently hoard and use those notes to make fire during winter.

- d) All those money hoarders, they did not evade just tax but these cash is earned by some foul ways especially at the stake of a country. Now the government has chance to investigate and put them behind bars.
- e) If demonetization worked correctly, then there should be lot of money in the treasury (those seized from hoarders). The major advantage comes here, thing can get cheap and affordable, government can think without constraints, government schemes be implemented smoothly, government works can be completed without delays. At the end of the day, people are benefited.

### Positive Effects of Demonetization

- a) Inflation decrease - this is the reduction in cost of petrol, diesel and consumer goods which has already happened.
- b) RBI economy increases - results in a stronger economy and attracts foreign investment.
- c) Reduction in real estate prices and interests in house loans.
- d) Fake notes are much controlled and circulation is less.
- e) Terrorists don't get funded by fake notes.
- f) Makes the economy stronger to withstand any economic recession.
- g) Black money is reduced not removed there still a few loop holes in the law and our banking sector.

### Demerits of Demonetization of Currency Notes

- a) People living in rural areas are suffering due to lack of banks and ATMs.
- b) Poor planning 2000 rupees note introduced first rather than 500 rupees note as a result no one are accepting 2000 rupees note.
- c) Small scale shops and brokers are suffering.
- d) Farmers are suffering.
- e) However upper middle class are not affected by the withdrawal limit as they are in habituated to online banking and shopping.

- f) If the government is planning not to remove withdrawal limit then poor and lower middle class will suffer.
- g) Some villages don't have banks and have to travel to nearby town to reach a bank.
- h) Most of rural people don't have bank account and accumulate money in their homes.
- i) The people have a negative impression on demonetization.
- j) India was not ready to accept this drastic change.

### Conclusion

As the demonetization initiative encourages the use of plastic and electronic money, cash transactions will become less and less common. This, analysts reckon, will have its share of benefits for the economy, apart from boosting tax coffers. The transition to a cashless economy will also improve savings in financial assets which will benefit intermediaries such as banks, NBFCs, microfinance and digital money operators.

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 Government Securities, and this could create a temporary downward blip in bond yields. Thus, some of banks could see windfall gains on treasury.

## CAN DEMONETIZATION CURB BLACK MONEY? – A HISTORIC APPROACH ON DEMONETIZATION

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### Introduction

The Indian government's move to withdraw Higher denomination (Rs500 and Rs1,000) currency notes in circulation on November 8<sup>th</sup> 2016 (Tuesday) at such short notice may have come as a surprise. Withdrawal of high-denomination rupee notes is a radical measure the government normally resorts to in an attempt to counter forgery. The central government announced the demonetization with the intention of betterment of citizens of India who are suffering the pain from clutches of corruption & black money and bringing back each and every note into circulation which is in possession of the non-deserving corrupt owners. The act of withdrawal of old currencies is termed as demonetization. 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 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. It has been done at least twice and this is the third time in India's history.

### Implementation of Demonetization and its Effects on Countries Economy

Not only India but several other countries such as Ghana, Nigeria, Myanmar, Zimbabwe, U.S.S.R. and North Korea also attempted a demonetization with an object of curbing black market and avoiding tax evasion. In addition to that Pakistan and Australia too demonetized their currencies with an object of Introducing new styles. The following table shows that the list of countries which are made an attempt to demonetize their currencies

**Table: 1 List of countries attempted demonetization**

Sl. No.	Country	Year	Demonetized Currencies	Effects
1.	Ghana	1982	50 cedis	made the people of the country support the black market and they started investing in physical assets which obviously made the economy weak.
2.	Nigeria	1984	1000	the debt-ridden and inflation hit country did not take the change well and the economy collapsed
3.	Myanmar	1987	Around 80% Value of Money	led to economic disruption which in turn led to mass protests that killed many people
4.	Zimbabwe	1987	100 trillion dollar	The Zimbabwean economy went for a toss
5.	U.S.S.R.	1991	Large Ruble bills	The move didn't go well with the citizens which resulted into a coup attempt which brought down the government's authority and led to Soviet breakup
6.	Congo	1990	100	Didn't give any better result of it in economy. Resultant prices of necessary goods increased and share market saw a heavy downfall.
7.	North Korea	2010	1000	left people with no food and shelter

Source: [www.indiatimes.com](http://www.indiatimes.com)

From the above table it is clear that the countries those attempted a demonetization with an objective to curb black market and avoid tax evasion were failed in their attempts. Their attempts bring negative effects such as economic disruption, mass protests, Increase in the price of essential commodities, downfall of share market and left people with no food and shelter instead of positive effects that they expected. The economy of such countries also became weak and went for a loss.

### **Attempts of Demonetization in India**

It is not the first time, the government of India has demonetized Higher denomination currencies It has been done three times in India's history. This time, the attempt is to crack down on black money. Though the French were first to use the word Demonetize, it is implemented first in India by the Moghal Emperor Muhammed Bin Tughlaq in 14<sup>th</sup> century followed by the British rulers on 12<sup>th</sup> January 1946 (Saturday). Third attempt has been made by the Janata government on 16<sup>th</sup> January 1978 (Monday) and the latest one has been made by the Bharathiya Janatha Party Government on 8<sup>th</sup> November 2016 (Tuesday). Except the first one all the three attempts were made with an objective of curbing black money and Tax evasion.

### **First Attempt**

Muhammed Bin Tughlaq, the 14th century Sultan of Delhi, ruled over northern parts of the Indian subcontinent and the Deccan. In 1329, Tughlaq introduced representative or token money. These were coins of copper and brass that could be exchanged for fixed amounts of gold and silver from the Delhi Sultanate called a tanka – a name that would later give rise to the Bengali word for currency, taakaa – the new coins were aimed at financing the sultanate's war operations, which stretched dangerously across the subcontinent. When Tughlaq introduced representative money in India, it

was a drastically an unfamiliar idea. The 13th century Persian king Gaykhatu is the only one sovereign outside of China who had done it . That experiment caused so much chaos that he had to withdraw it within eight days, and he was even assassinated soon after.

While Tughlaq's move was good in theory, he failed in implementation. Representative currency is a sound idea but it has the weakness of forgery. The first attempt of introduction as well as the demonetization was a failure.

### **Second Attempt**

The Second attempt has been made by the British rulers. This attempt has been made with an objective of sparing harassment to the unoffending holders and a worthwhile of results in the shape of extra tax revenue. Higher denomination currencies such as Rs1,000, Rs5,000, and Rs10,000 notes were taken out of circulation in January 1946, a year and a half before the country won independence from the British. 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. The Government authorities started thinking on the demonetization measure, the authorities of Reserve bank were apathetic about the scheme. The RBI Governor Sir Chintaman Deshmukh stated that scheme would be launched only when there were signs of the inflation. He wanted Government to be satisfied that there was no harassment to honest persons. As a currency authority, the Bank could not endorse any measure likely to undermine the confidence in the country's currency. Finally 40% of the Currencies were demonetized

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 'demonetised', not having been presented. This attempt has become failure as 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. It was more of "conversion ", at varying rates of profits and losses than "demonetisation "1.

### **Third Attempt**

This attempt has been made by the Janata government on 16<sup>th</sup> January 1978 (Monday) headed by Morarji Desai and it has a backstory. In the early 1970s, the Wanchoo committee on black money had recommended withdrawing certain banknotes. However, this suggestion could not be acted upon because the very publicity given to the recommendation resulted in black money operators getting rid of high-value currency notes. The Scheme has been 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.

All banks and government treasuries would be closed on 17 January 1978 for transaction of 'all business except the preparation and presentation of the receipt of returns' that were needed to be completed in the context of demonetization. This time public was given even lesser time of 3 days to exchange Rs 1000, Rs 5000 and Rs 10000 notes. Banks and government treasuries were required to submit information to the Reserve Bank of high denomination notes held with them as at the close of business on 16 January 1978. The notes held would be exchanged for an equivalent value by the Bank. The general public was given three days to surrender high denomination notes for conversion. After 16 January, notes

could be exchanged on tender of the high denomination notes in person by the individuals themselves or by a person competent to act on his/ her behalf. They had to tender the notes at the Reserve Bank or at notified banks in the prescribed format with full particulars giving, among other things, the source or sources from which the notes came into his/her possession and the reasons for keeping the amount in cash.

Long winding queues started forming in front of the Reserve Bank office right from the morning as also at the main office of the State Bank of India, to collect declaration forms. According to press reports on 18 January 1978, the day started with utter confusion over the issue of declaration forms at the Reserve Bank headquarters at Bombay and the working hours stretched to 6.30 pm. Enterprising city printers are said to have made quick money selling forms in sets of three for Rs 3. As expected, there were frayed tempers and a considerable hue and cry from the public as well as foreign tourists, especially those who did not have, or did not care to preserve, documentary proof to support the exchange of notes. Many tourists were reluctant to fill the forms, particularly tourists from the Gulf countries. Generally tourists who had a small number of currency notes of high denomination had their notes exchanged across the counter. The RBI Governor I.G. Patel was not in favor of this exercise. He had pointed out that such an exercise seldom produces striking results. Most people who accept illegal gratification or otherwise the recipients of black money do not keep their ill-gotten earnings in the form of currency for long. The idea that black money or wealth is held in the form of notes tucked away in suit cases or pillow cases is naïve. And in any case, even those who are caught napping—or waiting—will have the chance to convert the notes through paid agents as some provision has to be made to convert at par notes tendered in small amounts for which explanations cannot

be reasonably sought. But the gesture had to be made, and produced much work and little gain<sup>2</sup>.

This attempt has also not succeeded. Around 73.1 crore was the demonetized amount (Rs 1000 + 5000 + 10000) in 1977-78. Compared to this, 1067 crores were added by Rs 100 alone and the rest of the smaller denominations made up another 650 crores. So, it did not destroy any money stock at all. In 1946, atleast some bit was destroyed. The amount of denominations were also much smaller than seen in 1946. On the day following demonetization, two noted economists, Professor C.N. Vakil and Dr P.R. Brahmananda, expressed the view that the measure would not have any enduring effect on money supply, prices of necessities and problems like low savings, acute poverty, unemployment and industrial relations, as the high denomination currency notes formed only a small proportion of the total money supply.

#### Fourth Attempt

This attempt has been made with the intention of betterment of citizens of India who are suffering the pain from clutches of corruption & black money and bringing back each and every note into circulation which is in possession of the non-deserving corrupt owners. Almost 85% of the currencies in circulation were demonetized. On 9<sup>th</sup> November 2016, RBI asks banks to allow exchange of old notes up to Rs4,000, over-the-counter (OTC) withdrawal of up to Rs10,000 per day aggregating to Rs20,000 per week, limit ATM transactions to Rs2,000 per day per card, which would then be raised to Rs4,000 from 19 November. From that moment 60 times rules has been changed. Each and every day has been started with the utter confusions because of the various announcements made by the RBI and Finance Ministry. Long winding queues were formed in front of ATMs and Banks to exchange and deposit their old currencies. Around 150 people are dead. Nearly 1lakh lost their job. But this time Modi has the backing of his RBI governor, Urjit Patel, who applauded Modi's were as "very bold step" addressing concerns about the "growing menace of fake Indian currency notes." But that doesn't mean all the

skeptics are off his back. Economists doubt the impact of his decision. This attempt has also not succeeded as majority of the currencies were exchanged. According to a report by *Bloomberg*, banks have received 14.97 trillion rupees (\$220 billion) as of December 30, which was the deadline set by the government for individuals to return their currency notes. The government and the RBI faced criticism for their inability to implement the move in an efficient manner, continuing to cause hardships to citizens across the country.

#### Conclusion

There are both parallels and differences in all the attempts except first one. parallels of all the three were aimed at curbing black money, though this time security is an added challenge. In the earlier editions, RBI was mostly against the exercise and was proven right. This time it seems RBI has welcomed the idea. The big difference obviously is the size this time. Previous ones barely impacted common people but the present one is huge with 85% of currency out of the system. The first demonetization was a case of conversion, Second of accumulation. Third is projected as a demon but is more of a conversion. Since all the attempts of demonetization made by india as well as other countries became failure because of various reasons. Demonetization alone cannot curb black money. But implementation of various measures such as reduction in tax rates, Excessive rules and taxes imposed, restriction on FDI and the like will lead to success.

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## EFFECT OF DEMONITIZATION ON FINANCIAL INCLUSION IN INDIA

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### Abstract

*Financial Inclusion has come up as a key measure for achieving inclusive growth. The government of India has taken up several measures for financial inclusion. Although the degree of financial inclusion has improved still India has a long way to go to become digitally financially included. Indian Government adopted demonetization in November 2016 to tackle with black money and make India a cashless digital economy. The effect of demonetization has been studied on various drive such as ordinary individuals, informal sector, rural population, MSMEs, NBFC and E-Wallet Companies. With 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.*

**Keywords:** Cashless Economy, Demonetization, Digital Economy, Financial Inclusion.

### Introduction

The concept of inclusive growth has gained a lot of momentum in India. It means that all section of the society contribute to benefit from economic growth of the country. Financial Inclusion has come up key measure for achieving inclusive growth. Financial Inclusion is defined as “the process of ensuring access to appropriate financial products and services needed by all section of the society in general such as weaker section and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated mainstream institutional players”. When the poorest of the poor have access to credit and savings facilities, this translates to their financial securities. They can grow larger business, manage consumptions. The standard of living improves and poverty falls, allowing people to contribute more to the economy.

### Demonetization in India

Indian currencies with denominations 500 and 1000 have ceased to be medium of exchange from the midnight of 8<sup>th</sup> November 2016. This demonetization move is implemented as a tool to measure the stock of black money hoarded in these high denomination currencies and to curb terrorist activity in the country.

The government aims to bring the unaccounted back to the formal banking sector by allowing limited exchange and unlimited deposit of old notes in bank account till the end of 2016. However, the biggest problem is that the distinction between unaccounted cash and black money is lost. Money that is derived from illegal activity is harmful, but money circulated in small business only adds to economic activity. Indian economy is heavily dependent on cash. Inadequacy of bank branches is one primary reason why cash dominates especially among small business. Every bank branch in a rural and semi-urban center caters to more than double the number of people in an urban and metropolitan center. According to December 2015 RBI report, each rural and semi-urban bank branch serves 12,863 people compared with a urban and metropolitan branch which serve just 5,351 people. The spread of ATMs too is skewed in favor of urban centers.

### Effect of Demonetization on Financial Inclusion in India

The demonetization is created a tremendous impetus towards greater financial inclusion. It has operationalized the Jan-Dhan Bank account. However, it is bought in new concept called Benami Deposit. The Jan-Dhan bank account opened for the poorest of poor are now swelling with cash since demonetization. This implies that these accounts have become

holders of somebody's account. The effect of demonetization on the process of financial inclusion has been studied on various sections of the society which are the participant in the financial inclusion drive.

### **Ordinary Individual**

The common man has to bear the economic hardship as 90 percent of all transaction are paid in cash. Millions of people are crowding the bank and queuing outside ATM centers to deposit their cash, revealing that India has a long way to go before it fully transition into a digital financial economy. In spite of expanded digital access to bank account a very small percentage of the population has been able to operate without withdrawing cash or visiting the bank regularly. This is due to low level of digital financial literacy.

### **Informal Economic Sector**

India's massive informal economic sector comprising of domestic help, contract laborers, daily wage workers, farmers, fisherman, micro-entrepreneurs etc turns almost entirely on cash. These groups of people typically go not have a formal bank account. Cash is their only means of receiving income and making payments. Demonetization has led to a situation of cash crunch in the economy which has created a huge disruption on work and daily life of these people with severe impact on their livelihood and well-being. The small service providers like auto rickshaw etc. are being abandoned for online grocery respectively. These informal service providers although being very large in numbers, are not part of the digital economy and are losing business. The demonetization has led them to compromise on their work and stand in long queues outside bank for their own hard-earned cash. However, through demonetization the wealth produced and saved by the poor can be brought into the formal banking system. The 'dead capital' which was not available in the formal economy is now being turned into 'live capital'.

### **Rural Population**

The effects of demonetization have being even more worrying in the rural parts of the country which are even more dominated by cash and which have limited physical accessibility to bank and other financial institutions. Visiting physical bank branches in rural areas still remains a time consuming and costly exercise for many. Other digital financial services like ATMs and POS machines at shops are limited in number and crippled with infrastructural issues. Ordinary rural resident are placed in great stress with nowhere to go.

### **NBFC MFIS and their Customers**

There are large numbers of micro financing institutions (MFIs) in India, catering to the financing needs of rural and semi-urban Indian population. Customers, typically individuals, small traders and retailers, mainly operate on a cash basis due to informal and trifling nature of the amounts involved in such transactions. Demonetization has halted, business transaction of these individuals which are now running on a daily credit basis, and more importantly has led to a domino effect on employees/daily wage workers and other customers of non-banking financial companies – micro financial institutions (NBFC-MFIs) whose livelihood is based on cash payments. This is adversely affecting their daily business which in turn is affecting the timely repayment of loans taken by them from NBFC-MFIs. These loan defaults have lead to temporary increase in non-performing assets of NBFC-MFIs which generally rely on borrowing from banks for further lending.

### **E-Wallet Companies**

The demonetization promotes cashless economy and increase in use of digital financial service. The E-Wallet companies have seen a rapid surge in the number of transactions and traffic on their web and app-based platforms which are mostly driven by urban and metropolitan parts of the country.



## **Conclusion**

RBI statistics shows that 80% of monetary circulation in India consisted of Rs.500 and Rs.1000 notes. This demonetization is putting more than 80 percent of the country's monetary economy under suspicion of black money. This creates confusion between 'unaccounted money' and 'black money'. The government's move towards demonetization aims to convert black money into white money but inclusive growth can be achieved only if this money is used for development purpose. However, in comparison to present scenario, the effect has been largely upon the ordinary man than on the ones who are main contributors to the black money.

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. For this purpose the young generation should be leveraged upon to educate and support the poor, rural and elderly with digital literacy and transaction.

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## A STUDY ON RBI DEMONETIZATION OF RUPEES 500 AND 1000 CURRENCY EFFECT ON TEXTILE INDUSTRY IN INDIA

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### Abstract

*China and Bangladesh is major competitor of India in textile sector so for next few days all export business of textile in India will lightly slow due to unavailability of currency in India. Yarn exporters and cotton yarn manufacturers will not purchase cotton from Indian markets. The production of cotton from farmers will stock from November 9, 2016. It will have deflationary impact in small consumer business apparel garment cloth, ethnic wear products, textile job work, home textile furnishing product and on fiber and cotton raw material prices variation in economy market in India. As a consumer retailer shop in urban and small town, if you depend on cash counter by customer it could be difficult over the next one week to month.*

### Introduction

PM Narendra modi announced demonetization of Rs500 and 1000 currency notes with effect from midnight of 8th November 2016 so after this day the legal tender of Rs500 and Rs1000 currency of RBI will not valid in India and whole world. This decision of demonetization for Indian currency Rupees 500 and 1000 lightly effect in textile industry in India like purchase of new yarns and fabric from cash payment in India. Textile industry is majority depends on labor and job work of textile like embroidery job work, fabric printing and other textile labor work.

Demonetization will affect cotton and cloth industry because new cotton will not purchase in India for next few days and price of cotton will decrease suddenly for next few days. Central government moves on withdrawal currency of Rupees 500 and Rs1000 from market it will create some negative impact on cotton yarn market and textile machinery manufacturers.

Textile analytical says this effect is for short term period. Textile business in India is mainly depends on cotton industry and textile job work in India. This will also affect readymade garment business in India. RBI will change old currency of Rs500 and Rs1000 notes in own bank accounts.



### **Need to strengthen textile industry'**

"We will do our utmost within our constitutional framework to strengthen the textile industry. In the wake of demonetization, the Textile Ministry has helped open five lakh bank accounts for associated workers in the industry in a period of three weeks. We are also ensuring that the workers are trained to digitally use their bank accounts," said Smite Zubin Irani, Union Minister of Textile at Apparel Export Promotion Council (AEPC) 2015-16 Awards for Excellence in Global Exporters in Apparel Sector. Irani also encouraged AEPC and garment exporters to be a partner in the Governments efforts towards job creation through value driven manufacturing and exports. She added, "To further promote exports, there should an award for the best player in emerging market in the next award season. Industry should also head towards sustainable garments from an international perspective; and should look for innovation either in marketing or technology.

We need to strengthen the textile industry." She presented the awards comprising twenty one categories. The award categories have been diversified into further segmentation to encourage the SME sector. Minister of State of Textiles, Ajay Tamta; and Chairman AEPC, Ashok G Rajani; along with the other executive members and government officials from various ministries were also present [www.citiindia.com](http://www.citiindia.com) 5 CITI-NEWS LETTER at the event to showcase commitment towards strengthening India's apparel export industry. "AEPC Export awards extend across diverse categories and include both experienced and start-up representations.

The awards have been instituted with the aim to encourage Indian Apparel exporters to increase their export capacities and enhance competitiveness amongst firms to capture the global markets. We have an ambitious target for export and job creation in the next three years - I call upon the winners to be mentors to the start ups and SMEs in this sector and together strengthen the entrepreneurship ecosystem,"

said Ashok. India's garment exports had been facing problem of stagnation since last year, due to depressed market conditions in the major markets like USA and EU. However, since the announcement of the Rs6000 Crore special package in June 2016, there has been some optimism in the industry, and exports have picked up. garment sector alone accounted for more than 47 per cent share in all textile goods exports from India to world.

India exported worth of USD 10.96 billion garments to world during the April-Nov 2016. In the last fiscal India's garment exports were to the tune of USD 16.9 billion. Home 'Textile industry will be biggest winner of demonetisation!' Minister insists workers will get minimum wage thanks to new 'transparent' digital payments (Source: Sneha Agrawal and Karishma Kuenzang, Mail Online India, December 22, 2016) Smriti Irani said textile industry workers are set to be the biggest beneficiaries of the controversial move Union minister said digital payments ensure workers are paid minimum wage - She was speaking at Mail Today's Made in India Fashion Summit on Wednesday Workers in the textile industry are among the biggest beneficiaries of the Centre's demonetisation move, Union minister Smriti Irani said on Wednesday. Speaking at the Mail Today Make in India Fashion Summit, she also credited Prime Minister Narendra Modi with making khadi 'cool' again. The event held in the Capital treated fashion enthusiasts to a day of stirring discussions as well as the latest buzz in couture and policy-making with star-studded panels comprising leading politicians and designers.

**The decision of the government to scrape 500 and 1000 currency notes is affecting different class of society in a different way. Let us analyse the bigger picture of India post this move.**

#### **1 Poor Class**

This class is affected adversely immediately. This class hardly uses debit or credit card. They

also keep hardly any money in banks. They keep most of their money in cash in their home in the higher denominations. They have to, therefore, rush to the ATM and stand in the queue to withdraw their money to run their day-to-day affair. However, this problem is temporary and within a month, things are likely to return to normal. This class is likely to make better use of banking channel and the cards in future. That will make their life more secure and help them earn more money through interest on their deposit. They will also gain from the increases taxes and lower corruption in the government schemes that would follow this move.

## **2 Middle Class**

The middle class of India is used to use credit/debit cards and other online methods to transact their business. They too have to stand on the big queue for short time because they still need the 100 rupee note for making petty payments. Yet they can buy most of things using their credit cards. This class would become more cashless now so that they can eliminate the need of currency notes as much as they can.

## **3 Upper Class**

The honest upper class of the society is already making most of the transaction cashless even now using cards and electronic transactions. They too may face a few days of trouble but their life would become normal very soon.

The dishonest upper class is the worst hit due to this move of government because most of their black money is stored in 500/1000 notes which would go waste. They have to either burn their notes or give them to a large number of poor people (on commission) for converting that to white. The currency would become valid once replaced by new notes, but the black money would remain black. If they face the raid, they would end up becoming bankrupt once they have to pay 200% penalty on such money.

## **4 Politicians**

Politicians are the worst affected class due to this move. They keep almost 90% of their

money in black. Once that money is gone, they would no longer be able to buy the votes. It is for this reason that the move of Shri Narendra Modi is most significant. He has angered not only the corrupt and big businessmen but also his own class i.e. politicians. Every class that used to fund the elections must be angry with him. Textile industry struggles with international competition, high input prices "The Malegaon power loom industry has been under pressure because of high cost of cotton, the main raw material; temporary shutting down of over 700 textile units in Rajasthan, where cloth made in Malegaon would be dyed; and international competition," said Iqbal Amarveer, 44, a third-generation power loom owner. The textile industry is the second largest employer in India, after agriculture, employing more than 25 million workers, according to the 2015 annual report of the textile ministry. The textile industry, of which decentralised power looms and knitting are the largest components, contributes 2% of India's gross domestic product. Maharashtra, with over 1.1 million power looms, is one of the largest power loom hubs in the country.

"Textiles produced in Indian power looms are not competitive compared to Chinese and Bangladeshi textiles, which is why there is less demand and lower prices for Indian goods," said Dinesh Patole, the state government's labour officer for Nashik and Malegaon divisions.

## **Why looms work three times a week, instead of six**

Most of Malegaon's 1.1 lakh power looms are micro, and small enterprises, each with nine to 12 power looms, according to the 2012 economic report on the Malegaon power loom industry, submitted to the Maharashtra Minority Commission. These looms, many of which are outdated, function in small garage-sized rooms with tin roofs.

### **Poor Working Conditions in Factories, Unaddressed by Government**

Even before the withdrawal of old Rs 500 and Rs 1,000 notes, the 100-year-old power loom industry in Malegaon, which earned more Rs 10 crore every day, was known for treating its workforce with apathy. The situation is worsened by India's complex labor laws, and the small size of the power loom businesses.

Pagare is treated as a casual worker, not regularly employed or entitled to benefits of a regular worker, in spite of being in the industry for over 23 years. He is paid weekly wages in cash, has not been registered under the Employment State Insurance Scheme, has no paid leave, and no health insurance. He is forced to change his job every couple of years to negotiate a raise as there are no hikes or promotions in the industry. Spending 12 hours working on the noisy power looms, without ear plugs, has taken a toll on his hearing, he said.

"The work is very strenuous and there is lot of running around to handle eight machines," said Pagare, adding he would have liked to do another job but has few options as he is educated only until grade 4, and has no other expertise. Pagare is the sole earning member in his family of five.

"Power loom workers usually work 12-15 hours a day in poor conditions, without overtime or any protection, under the constant threat of losing their job," said Sunita Kulkarni, president of the Malegaon division of the Indian National Trade Union Congress, a trade union affiliated with the Indian National Congress. A survey by the Tata Institute of Social Sciences found that the average monthly income of a loom worker in 2011 was Rs 911.

### **Small Factory Size Makes it Difficult to Upgrade Technology, Improve Labour Conditions**

Businesses in Malegaon are small— 40% of looms have an investment of less than Rs 5 lakh, and 50% of looms have an investment of between Rs 5 lakh and Rs 10 lakh. Less than

10% of the owners access funding from banks, since many banks are unlikely to give loans to unregistered, or very small enterprises.

The small size of power loom factories in Malegaon makes it difficult to upgrade machines and provide better facilities for employees. Less than 19% of the power looms have upgraded looms, called auto or shuttle-less looms, which would make the workplace safer and increase productivity, according to the 2012 report on the textile cluster of Malegaon.

### **India's Complex Labour Laws: 144 Central Laws, 160 State Laws**

India's labour laws are rigid and complex, with about 144 central government legislations, and 160 state legislations. "Although the regulations are meant to enhance the welfare of workers, they often have the opposite effect by encouraging firms to stay small and thus circumvent labour laws," according to one World Bank report. Restrictions on hiring and laying off workers, dealing with trade unions, and closure of plants incentivises firms to employ fewer workers and use capital-intensive approaches, according to this 2014 report.

### **Conclusion**

We are lucky to witness one of the most audacious economic experiments ever undertaken. It is still not clear whether the demonitisation scheme will eradicate the unaccounted black economy in India.

The government has declared INR 500 and INR 1000 currencies illegal with a short four-hour notice on 9 November 2016. The estimated cash reserve in INR 500 and INR 1000 is about INR 15 trillion (lakh Crores). This is about 87% of entire currency in circulation. Considering 25% of this as black or unaccounted, the estimated black unaccounted cash is INR 4 trillion. India's GDP is estimated at about INR 150 trillion. Thus the black unaccounted cash is roughly 3% of GDP. This is minuscule against the estimated 25% of the black economy of the nation. However, the amount is substantial

when compared to the government deficit. Our government deficit per year hovers around 3% to 5% of GDP. So, for this year, the government is getting a windfall, which it can spend on creating infrastructure and other productive purposes. However, this windfall is strictly a one-time bonanza, and creation of black money will not stop with this demonetization initiative.

This action is also beneficial for the nation in curbing counterfeit currencies, which is used in funding terrorist movements and other illegal anti-national activities. But there are two other aspects. One is short-term. Common people are facing extreme hardship in exchanging currencies to manage their day to day expenses. Reportedly, around 98% of transactions happen in cash in India.

So the wholesale and retail markets have been affected. This will be much more pronounced in rural part, where people are not yet ready with alternatives, and many do not even have functional bank account.

In urban India, affluent, tech-savvy consumers are increasingly migrating towards digital payment options and organized retail and e-commerce options for their purchases, tech-based cab services for transportation, affecting the small shop-owners, traders and taxi drivers immensely. The migration is probably irreversible, creating clear set of losers in the society.

## DEMONETIZATION IN INDIA-PROSPECTS AND CHANGES

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### Abstract

*The argument posited in favor of demonetization is that the cash that would be extinguished would be "black money" and hence, should be rightfully extinguished to set right the perverse incentive structure in the 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. This paper elucidates the impact of such a move on the availability of credit, spending, level of activity and government finances. 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 opposite of demonetization is remonetization where a form of payment is restored as legal tender*

**Keywords:** Black money, demonetization

### Breaking Down '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. 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.

### Reason

1. To tackle black money in the economy.
2. To lower the cash circulation in the country which "is directly related to corruption in our country," according to PM
3. To eliminate fake currency and dodgy funds which have been used by terror groups to fund terrorism in India.

4. The move is estimated to scoop out more than more than Rs 5 lakh crore black money from the economy.

### Impacts of Demonetization in India

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 activist 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.

### Positive Impact of Demonetization (Over a period)

**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 demonetization 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. Fake Indian Currency Notes (FICN) 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 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 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 poll:** When nearly five state elections in 2017, demonetization has stunned political parties. Especially, in large states like Punjab and Uttar Pradesh, cash donations are a huge part of "election management". In one stroke, big parties will find themselves hamstrung as cash hoards are often undeclared money. Parties will have to completely rejoin campaign strategies in light of expected cash crunch.

**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. Cashless & Digital economy. A better step towards Digital India. There are now several to being digital. There are several banks, several digital wallets and new payments banks entering the markets. Aadhar card linkage everywhere could also be a game changer.

**Interest rates:** There should be a rise in banking interest rates.

**Inflation and GDP:** If not Poverty elimination, at least a difference in the poverty graph has to be seen over a period. Every individual who are now standing in the queues are to be shown the difference, which increases the credibility on such bold steps, and let them be prepared for such kind of decisions in future which could be taken in favor of common man. Hope for Better Society, Clean India, Digital India.

### **The Negative Impact of Demonetization**

**Cash crunch:** There is a huge cash crunch. As, the small denominations are accounted to only 14 to 15% of the total currency in the market, more and more small denominations would have been supplied. Assuming that the currency may not be supplied in a large number, due to the ideology of digitalizing the currency.

**Economic slowdown:** The major industries like real estate, infra, gold etc have been affected and sales would come down and that impacts the growth of the economy. Many transactions halt, until the markets get back to normalcy. Markets may see a temporary fall, and temporary recession. At least a year would be the span to retain the normalcy. There could be a long-term gain.

**Real Estate:** As demonetization hits real estate industry very badly, people has now got no clarity on how to go ahead in terms of buying a land or a house. Government has to come up with some sort of awareness campaigns about how the future of real estate could be seen, whether any new laws comes in to picture, if customers has to wait or may go ahead and buy them.

**Corruption at different levels:** This step proved that, given a chance, every individual is prone to corruption. Indian banking system is supposed to be one of the most stable, rigid and strongest across the globe. Our banking system is so strong that it could even face and withstand the global recession in 2008, but all



that reputation is at stake now. This bold step leads to many banking frauds and illegal transactions across the country. Bankers, Currency chests and may be a few at RBI, played a major role in the frauds post-demonetization.

Police, CBI and I-T raids are just seeing shocking and disturbing figures of new currency been supplied illegally. Also, poor people are prone to corruption. There are huge deposits in Jan dhan accounts, bank accounts of poor people, which shows even poor people are corrupted and are ready to save the corrupted. So, given a chance, at least 95% of people are prone to corruption. We expect a very serious action with respect to banking frauds, as we common people are facing the trouble and can't afford to see things happen this way. But, it is the responsibility of the government to take out all the culprits in order to gain the credibility, as it shouldn't be very difficult to track the new currency as it is just a month old.

**The new digital Laws:** A step towards a cashless economy is a great step, but government has to bring in more laws, that help people understand about the safety in digital banking. It is the government's responsibility to make people aware about, how safe and good, the digital banking is. There are high charges now for digital transactions like at POS, Internet banking etc, which has to come down.

**Recalibration of ATM's:** Recalibrating ATM's was not done at a great pace as it has to be done in such critical situations. May be cash crunch and recalibration of ATMs are both wontedly done in order get people into digital mode.

#### **How it will curb black money-**

In India all sections of the society are accustomed to use cash transactions, and this habit is unscrupulously misused by some bad elements of the society. Such habit resulted in even people with accounted money are started using cash transaction for high value transactions. It is resulted into parallel economy with unaccounted money, even much stronger than regular economy. The parallel economy

black money, corruption, counterfeit currency and terror financing. These issues hampered growth and development of the economy. In this background demonetization of Rs 500 and Rs 1,000 currency notes as a master stroke, as the move will address issues like black money and corruption and also help the economy become more digital.

The move will either unearth the black money slashed in the form of cash or forces to destroy those unaccounted currencies. Demonetization will curb the menace of black money and will help check stashing of funds to a large extent. Similarly it has major impact on corruption that exists in India and also on financing of terror activities in India. Hence it was considered as courageous step in the fight against unaccounted money.

#### **Demonetization and its Effect on Black Money**

The biggest mission of demonetization is described as fighting black money. India's economy historically holds a big parallel economy where unreported income is the norm. Demonetization is a currency side step. That itself will not fight black income. The most important policy should be tax administration where the tax authorities can monitor expenditure and matching it with income of the respective individuals.

The effectiveness of demonetization against black money depends upon the follow-up and supportive measures were made by the government. For example, the enactment of the modified Benami Transactions Act from November 1, 2016 will be a big associated tool in the hand of the government to tackle black income. Thus, to assess the effectiveness of demonetization, we should examine how these steps are complementing each other to fights black money.

#### **Conclusions**

The demonetization undertaken by the government is a large shock to the economy.

The impact of the shock in the medium term is a function of how much of the currency will be replaced at the end of the replacement process and the extent to which currency in circulation is extinguished. While it has been argued that the cash that would be extinguished would be "black money" and hence, should be rightfully extinguished to set right the perverse incentive structure in the economy, this argument is based on impressions rather than on facts. While the facts are not available to anybody, it would be foolhardy to argue that this is the only possibility. As argued above, it is possible that these cash balances were used as a medium of exchange. In other words, while the cash was mediating in legitimate economic activity, if this currency is extinguished there would be a contraction of economic.

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## IMPACTS OF DEMONETIZATION IN BANKING SECTORS

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### Abstract

*As per RBI, 87% transactions in India are cash transactions and this loophole is used by corrupted people to build a parallel economy with unaccounted money. This parallel economy helps in terror financing which in turn hampers the growth and development of country. Currently high values notes account for total value of 86% of the notes in circulation in India. It is expected that this step will help in reducing the fiscal deficit of India and promote the cashless economy in India which can be easily monitored. There are many cons of demonetization also, for instance, it creates panic among the common man. Local traders and shopkeepers are facing problem. It is expected that it will affect the SME sector in India. Demonetization step of central government will surely result into something good and help in reducing the black money. It will surely bring the clear view of every transaction within the country and promote cashless transactions. This step will affect general people to some extent but for the benefit of future generation such decisions are inevitable. We should welcome such brave step of Indian government which will curb black money to some extent.*

### Introduction

RBI data throws up interesting facts on Rs 500, Rs 1,000 notes In its annual report for 2015-16, RBI provides data on the indent and supply for various denominations; Rs 2,000 figures nowhere. Demonetization is the withdrawal of a particular form of currency from circulation. Through demonetization the old currency is replaced by the new currency or a currency circulation is blocked. There are multiple reasons why a country demonetizes its currency; some reasons include checking the inflation, to curb the corruption and to promote the cashless transactions. Recently the Indian government decided to demonetize the biggest denomination notes i.e. 500-1000 Rupees notes, this step has been declared as a master stroke for the Indian economy by various experts. The Reserve Bank of India (RBI) is in the spotlight these days, thanks to the demonetisation of Rs 500 and Rs 1,000 notes by the Central government and the resultant scramble. The central bank is also hogging the limelight over a debate on the timing of the introduction of the Rs 2,000 note. A look at the RBI's annual report for 2015-16 (July 2015 to June 2016) released on August 29, 2016 sheds light on the volume of currencies that it indented over the years, including the current

financial year 2016-17 (April to March). Curiously, the RBI had given an indent of 2,200 million pieces of Rs 1,000 denomination for the current financial year (2016-17), up 15.78 percent more than 1,900 million pieces in 2015-16.

### Historical Facts about Demonetization in India

Although the history of demonetization in India dates back to the time when various rulers ruled this country, the freshest and most significant instances of demonetization in India are:

1. On **12<sup>th</sup> January 1946**, 500, Rs. 1,000 and Rs. 10,000 notes were declared invalid as legal tender.
2. New notes of Rs. 1000, Rs. 5000 and Rs. 10,000 came into economy in **1954**.
3. On **16<sup>th</sup> January 1978**, the Morarji Desai led-Janata Party demonetized banknotes of Rs. 1000, 5000 and 10000. Note that, the finance minister at that time was H.M. Patel.
4. RBI introduced a new banknote of Rs. 500 into the economy in **1987** to contain inflation.
5. On **8<sup>th</sup> November 2016**, the old banknotes of Rs. 500 and Rs. 1000 were barred from

being legal tender and new notes of Rs. 2000 were soon introduced.

Also, Denominations of 1, 2, 3, 5, 10, 20 & 25 paisa were in circulation till June 30, 2011 but were then withdrawn. 50 paisa coins are still in circulation and are called *small coins*. Other denominations called as *rupee coins*. Let us now review some legal facts about demonetization.

### Legal Facts about Demonetization in India

Do you think the government is conjuring policies on its own? Well, it is not so. Like every economic and political measure, demonetization also has a valid place in the Indian law books. The legal basis for the order demonetizing currency can be found in Section 26 of the Reserve Bank of India Act, 1934. Under sub-section (2) of this Section, the Union Government is given the power to declare that any notes issue by the Reserve Bank will no longer be legal tender. The only procedural requirement is that the Board of the RBI recommends the same to the Union Government. In fact, in 1978, demonetization was carried out under a special legislation, namely the High Denomination Bank Notes (Demonetisation) Act, 1978.

### Role of Government & RBI in Demonetization

The introduction of *Pradhan Mantri Jan Dhan Yojana (PMJDY)* and *Income Disclosure Scheme (IDS)* were done to ensure that everyone has a bank account and gets ample time to declare their incomes. Before the Prime Minister issued an order to demonetize certain currency, he consulted the RBI and the Finance Minister. Here is a list of the rules set in place continuously over a time of **20 days** since the PM announced demonetization:

Date	Events
8 <sup>th</sup> Nov	PM declares the Rs. 500 & Rs. 1,000 notes invalid. Exchange of cash up to Rs. 4,000 allowed at banks, ATM withdrawal limited to Rs. 2,000.
9 <sup>th</sup> Nov	Banks remain shutting for a day.
10 <sup>th</sup> Nov	Banks open. Massive queues ensue as millions line up to exchange old currency or deposit their money.

12 <sup>th</sup> Nov	Reports come in that people died waiting in the queues. The Sensex registers the biggest single-day fall in 9 months.
13 <sup>th</sup> Nov	ATM withdrawal limit raised to Rs. 2,500. Cash exchange limit raised to Rs. 4,500.
15 <sup>th</sup> Nov	Banks are asked to apply indelible ink marks on people exchanging money. The election commission raises concerns regarding this.
16 <sup>th</sup> Nov	Parliament session begins; opposition parties up the ante against the government over the suffering of the poor.
17 <sup>th</sup> Nov	Currency exchange limit lowered to Rs. 2,000.
18 <sup>th</sup> Nov	India's Supreme Court says many are "frantic" over demonetization.
22 <sup>nd</sup> Nov	RBI says banks have received Rs. 5.3 lakh crore in deposits since Nov.08.
24 <sup>th</sup> Nov	Old notes can now only be deposited at banks and not exchanged.
27 <sup>th</sup> Nov	RBI governor Urjit Patel justifies demonetization, says the new notes are difficult to counterfeit.

### Black Money

The government is proposing for a cashless economy with digital transactions but this is not applicable in a country where the government says the people to use toilets. Recently the state bank of India had written off the debts of rs 7000 crores of rich people including Vijay mallya. Guess where the money comes from? It's from the deposits of the common man and the government owned banks had written off many debts before. This lead to extreme loss for banks so this same government started the scheme Jan Dan yojana on the intention that more money will come to banks, but it didn't happen. Most people rejected it. So the government demonetised high value notes and as a result the money of the people are now deposited in bank and the government had imposed restrictions on taking back money. This worked well and with the RBI not cutting the interest rates their intention is clear.

### Impacts of Demonetisation

The currency ban has been a huge headache for millions of Indians. Since the old 500 and 1,000-rupee notes are the bread and butter of most financial transactions in India, everybody has been rushing to exchange them. But because the supply of new banknotes is far smaller than the supply of old ones, there are

currently strict regulations on the quantity of new banknotes that people can withdraw at any given moment. The cash shortage has been particularly hard on destitute Indians, many of whom don't have bank accounts. Some of them have to choose between waiting in line for a day to exchange their defunct currency and working for a day's wages. And Basu estimates that many poor people may simply end up losing their savings because of their mistrust of financial institutions and concern about being harassed about where their cash came from. Many experts don't even have faith that this is an effective way to counteract tax evasion. Basu says that most black money doesn't take the form of cash held in India but is instead held in gold, silver, real estate, and overseas bank accounts.

### **Implications of Demonetization**

It is rather difficult to predict the impact of demonetization on the economy. The immediate pain in terms of non-availability of required currency notes if not corrected soon, may reflect in reduction of output in agriculture because of its timing being close to sowing season and which may spillover to industry and services. If the efforts of the government result in unearthing substantial amount of dormant money implying that stock of money would become a flow, then theoretically, prices would go up as more money would be chasing limited amount of goods. On the other hand, if there are liquidity constraints impacting production because of non-availability of required currency notes, then inflationary pressures will be subdued along with lower production. Similarly, though exchange rate is depreciating in short run because of high demand of US dollars, but medium to long-term trends would depend on growth and inflation.

The severity of demonetization could result in enhancing fear of placing deposits in banks to avoid detection, and people may pursue other

alternatives. Further, people may even be cautious in holding high denomination currency in their homes, which may get diverted to investing in gold, real estate and other activities.

### **Conclusion**

India continues to have 30% of population or nearly 40 crore people below poverty line. These people could also be slow in embracing digital economy. 90 % of the Indian population operates in informal sector. Illustratively, the transport sector including taxis, auto/cycle rickshaws, horse carriages and bullock carts are all on cash payment as also most of local markets/shops/dhabas and similar business outlets, especially in rural areas. However, the recent demonetization has only hit the stock of unaccounted wealth kept exclusively in form of currency. To curb regular accumulation of more unaccounted money, Government could institute a mechanism of incentivizing tax compliance and punitive and demonstrative deterrent for those caught while generating black money. Second, by extensive financial literacy on harmful impact of unaccounted money ranging from personal health to national loss.

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## DEMONETIZATION: MAKE OR BREAK

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### Abstract

*Demonetization causes various drastic changes in Indian economy .it causes positive as well as negative impacts .as India is an developing country effect of demonetization is unbearable because India currently has the largest population of illiterate adults in the world with 287 million. This is 37 per cent of the global total. India was heavily depended on currency in handling financial transactions. Electronic or transactions by bank was limited to below 20% of daily transactions. People used to save money in currency as it was essential to handle day to day transactions. 90% of the stores in markets was not accepting electronic money. They all insisted on cash in currency. Generally India had a stable economy and people started trusting currency and they trusted the economy enough to keep the savings in currency. (Remember it is not practical in fluctuating economy where people will convert money into tangible assets including Gold and it will affect the transacting capability of the people). India remained stable for long only because people maintained their money flexible for transactions. So demonetization in India is make or break in various industries it creates positive effect and in some industries it causes negative impact. Finally we analyze demonetization is make or break in this chapter.*

**Keywords:** Demonetisation, Currency

### Introduction

Demonetization was first introduced in the year 1934 in India. After that only before four years Rs.500 and Rs.1000 in circulation. In a televised address on 8<sup>th</sup> November 2016 by the Prime Minister Modi, it was announced that notes of Rs.500 and Rs.1000 would cease to be legal tender from midnight. These notes accounted for 86% of the country's cash supply. ATM's were closed on 9<sup>th</sup> and 10<sup>th</sup> November, 2016. Government organizations have bringing out Rs.2000 banknotes and new version of the Rs.500.the old notes are being removed from circulation.

### Objective of the Scheme

The surging menace of fake currency, especially in high Denomination, cannot be stressed enough. This in turn, Is hoarded as black money, and is misused by terrorists for anti-national and illegal activities .India is still known as a cash based economy; and black money as a percentage of GDP has risen consistency over the years (62%at present).Hence, a courageous move to put a check on and get rid of the evil was the need of the hour.

### The Foremost Objectives of the Scheme Were-

- To eliminate black money from the markets.
- Stop terror funding

- Combat corruption
- Eject the counterfeit currency out of the system.

### Benefits

1. It shows government seriousness to tackle black money .this signaling effect alone is a huge benefit to the nation where many evade taxes.9
2. An additional objective has been appended: Make India a cashless society.
3. Due to lack of funding there will be no arms smuggling and all the terrorist activities will also be checked.
4. Exchange of money in bank is done only by producing a valid identity card like PAN, AADHAR card and electoral card. It will be easy for the government to track the money which is being exchanged in banks. There is no limit if the amount which we are exchanging is legal amount.
5. The goal of the demonetization move in India is to make the economy stronger and eliminate the parallel cash economy which is unaccounted and un taxed .while this can impact the GDP negativity in the short term it would have positive long term consequences.

### Issues

1. Execution of such an exercise in India is not an easy task. We just aren't technically

ready to do this in a smooth manner.(that is why we are facing some execution issues)

2. There are some tricks still people can use to swap black money recovered.
3. Indian economy is mostly based on cash. It is a big deal to execute.
4. A potential crash in real estate prices. While somewhat property prices to fall, a huge drop can cause an economy shock, reduction in bank collateral values etc., again leading to a recession.
5. The exercise would be expensive, and that cost needs to be taken into account.
6. When liquidity shortage strikes, it is consumption that is going to be adversely affected first.

The most interesting thing regarding the demonetization is that people are devising various unique methods for transforming their black money in to white one. Some of these methods are as follows –

- Depositing money in the accounts of their poor relatives and friends.
- Enticing the people with some percentage of money for exchange.
- Asking their employees to stand in the long queues in front of Banks and ATMs for getting money exchanged.
- Hiring labors for some Rupees ranging from Rs 500/- to 700/- for becoming the part of long queues in front of banks/ ATMs.
- Converting black money in to gold.
- Paying a few months salaries in advance.
- Paying back loans forcibly.
- Using their influence / links with bank employees and so on.

### **Impact of Demonetization on Indian Society**

- We shall see a great impact of this move of the Central Government on Indian Society and Economy. The first impact shall be that people will have lower expenditure power. With that they will not be able to purchase luxurious things.
- There shall be no ostentatious expenditures on marriages and other ceremonies. So the society will grow lesser materialistic and people more prudent. With the fake money

destroyed, Indian economy will see a big boom and the so far booming real estate sector shall fall on the ground.

- The things shall be cheaper. Indian Currency shall get respect at the international market. There shall be a great check on the terror-related funding and therefore on terrorist activities. Corruption shall be down to a great extent as people will stop the tendency of accumulating money using wrong means.
- It wills a bridge the gap between the haves and the have-nots. However, there may be some difficulties for a couple of months. But this inconvenience shall be temporary and for short-term.

### **Conclusion**

Over all Demonetization is a good move. We should support demonetization, but keep reminding the government to iron out the execution issues. Given the extent of black money in the country, and the tiny taxpayer base, something had to be done .it had to be drastic. it has been done now. We should now do what it takes to make it succeed. The advantages are much dominating and it will be in the long term interest of our country comfortably outweighing the disadvantages .government needs to take all the necessary steps so as to ensure that there will be a smooth flow of currency exchanges.

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## IMPACT OF DEMONETIZATION ON RURAL POPULATION

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### Abstract

*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. The chaos was created in every strata of the society whether upper, middle or lower. Where some welcomed the move as it was seen for curbing black money, many are suffering by this movement. But the supreme sufferers of this move were the informal sector of Indian economy, where cashless transactions are minimal. 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.*

**Keywords:** *Black money, Cashless transactions, Informal sector.*

### Introduction

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 Narendra Modi. This concept of demonetization is not new. 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 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.

### Purchasing Power of People

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.

### Impacts of Demonetization

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

- 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 unorganised 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.

### **Decrement in Income**

- India's vast services sector, which accounts for two-thirds of GDP, is worst hit.

- Earnings of autos, retail, consumer goods, cement, telecom, non-banking financial institutions will report downfall.
- 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.
- Several eateries reported that crash in card swiping machines compelled them to refute to customers who did not have sufficient smaller denominations.

### **Conclusion**

Without adequate and proper planning; the demonetization-driven cash crunch has rendered Indian economy paralyzed for short duration as the informal sector which comprises of 40 percent share in GDP has become unviable. Many people do not have bank accounts where they are paid in cash are facing severe problem. Hours of working time is being wasted in standing in queues for exchange. For physically frail and senior citizens it is grave problem indeed to obtain new notes. Number of deaths occurred for want of medicines as the doctors refused to take denominations of 500 and 1000. .More smaller denominations notes must be ensured in bank and ATM’s quite ahead before so that this acute shortage of notes were not felt as people would already had in their pockets. 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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## DEMONETIZATION WILL IMPACT E-COMMERCE GROWTH IN INDIA

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### Abstract

*The government of India announced that the Rs.500 and Rs.1000 demonized 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. What are the cost of this demonetization? Will it be effective if people can still create new black money thereafter? Will it increase the GDP? Will it affect e-commerce?*

**Keyword:** Demonetisation, E Commerce

### Introduction

India is one of the key growth countries for the company, with e-commerce in the region at a nascent stage and a huge potential for growth. However, economic policies in the country can impact this growth in E-commerce. In a sudden and unprecedented move, on November 8, 2016, the Indian government announced that high value currency notes (Rs. 500 and Rs. 1000) will no longer be legal tender, eliminating nearly 86% of the currency in circulation, creating a huge cash crunch in the economy. In a country where nearly 90% of transactions are carried out in cash, a bold move to transform the region into a “cashless” economy has created chaos. The move is intended both to reduce untaxed “black” money and rampant corruption in the country, and to bring more accountability in cash-based informal industries.

### Demonetization in Ecommerce

Experts believe that demonetization could impact the country's economic growth significantly in the short term. Ambit Capital, a reputed research company in India, has revised its FY18 GDP growth estimate to 5.8% as opposed to the 7.3% figure earlier. The cash crunch has impacted business of several industries and can have a significant impact on the “Cash on Delivery” model of e-commerce companies in India. About 70% of online shoppers in India, including those on Amazon's

platform, opt for cash while buying a product. Cash payments are more frequent for high value products where the unaccounted “black” money is spent on luxuries. While online grocery companies have seen a surge in revenues with the demonetization move, as consumers look to buy essential commodities through digital payments, gross merchandize value of other high value commodities is likely to be impacted negatively. According to Forrester Research, the cash crunch will bring the cash on delivery share of e-commerce sales down significantly and increase the online payments.

### Reduction in Cash on Delivery – Short Term Pain But Long Term Gain

CoD is considered as a necessary evil in the Indian e-commerce market. While it boosts sales of online companies, it obstructs their cash flows and makes it difficult to scale operations. There are several additional costs involved with this payment method and the risk of returns and thefts with this form of payment are higher. The recent government push towards a cashless economy will encourage more online payments and reduce the total share of CoD in e-commerce sales from the current high of nearly 80% of total transactions. This should help e-commerce companies including Amazon to reduce overhead costs and other risks associated with the CoD model. However, in a region where a small section of the population owns credit or debit cards (12% according to a

2014 report), a shift towards a digital payments will be difficult and can impact revenues significantly in the short term.

### **Slowdown in Economic Growth**

The goal of the demonetization move in India is to make the economy stronger and eliminate the parallel cash economy which is unaccounted and untaxed. While this can impact the GDP negatively in the short term, it should have positive long term consequences. For e-commerce companies such as Amazon which already have a digital payments system in place, it should lead to higher online payment and eventually eliminate the painful cash on delivery option. However, in the short term, Amazon is likely to witness a decline in GMV from India as the economy adjusts to the "new normal".

India is a strong growth market for Amazon and in June this year the company invested an additional \$3 billion in the country. The demonetization move will impact the economic growth in the country in the short term and could well be reflected in Amazon's revenues from the region. But we believe that, in the long term, Amazon should benefit from this move. Lower inflation, lower interest rates and a lower budget deficits are likely to be the long term positive macroeconomic effects of the move, which should stimulate economic growth and benefit businesses in the region. However, as the country undergoes this huge transformation from a cash dominant economy to a near cashless economy, Amazon might feel the pinch in terms of lower volumes in the region, in the short term.

### **View Interactive Institutional Research**

"A huge population is dependent on these manufacturing units. With business getting sluggish, it will hamper the local economy," said Kishore Kumar, president of the Sari Manufacturers Association in Burrabazar.

A member of the Federation of Small and Medium Industries explained why the sector

has been hit so badly. "The economic cycle is short because the monetary transactions are not very high and the payments are made on a piecemeal basis and almost every alternate day which makes cash the easiest and most preferred mode. Withdrawal of Rs 500 and Rs 1000 has created an acute shortage of cash which has hit the industry," said the member.

Prime Minister Narendra Modi said he was heartened by the warmth, enthusiasm and patience citizens had shown in coping with this limited inconvenience for a greater good. Most of the people in the queues are small traders and owners of small manufacturing units. But reality was far from that.

### **Conclusion**

Pay world, which had over 100 million users and 1lakh retail touch points across 630 cities and 80,000 villages till the 1<sup>st</sup> week of November has seen a 25% jump in new users mostly from rural and semi-urban areas over the period "What we couldn't achieve during the last 9 years was facilitated instantly by Narendra Modi." Gushes pay world chief operating officer Praveen Dhabhai. "Over 93% of people in rural India have not done any digital transactions so the real potential lies there". From a local cycle shop own to a sugarcane juice seller even a temple priest, all have started using mobile wallets. As India takes a step towards building a cashless economy.

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## DEMONETIZATION-CHALLENGES FOR RURAL INDIA

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### Abstract

*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 31March 2016 stated that total bank notes in circulation valued to 16.42 lakh crore of 500 and 1000 bank notes. As per the press release of RBI dated on 28/11/2016, that total amount of old notes (which are now withdrawn) of value of 8.11 lakh crore has been deposited by the customer till 27/11/2016. Banks started accepting deposits from 10<sup>th</sup> of November but within a period of 18 days around half money has been received by the banks. The show is still on. But, between this the Government again provided the scheme of pay tax and converts your black money into white money scheme launched.*

**Keywords:** Cash Crunch, Liquidity Trap, Demonetization, Chest

### Introduction

Demonitization is the act of stripping a currency unit of its status as legal tender. When any Government withdraws a legal tender rights of any denomination of currency, it is known as demonitization. The Prime Minister announced on 8<sup>th</sup> of November, 2016 about the withdrawal of legal tender of 500 and 1000 currency notes in the late evening. The Government claimed that this demonitization is required for the following reasons-

1. For stopping the funding of terrorism.
2. For facing the problem of fake currency.
3. For making the black money worthless.
4. For reducing the corruption, etc.

Interms of value, the annual report of Reserve Bank of India (RBI) of 31 March 2016 started that total bank notes in circulation valued to 16.42 lakh crore of 500 and 1000 bank notes as per the release of RBI dated on 28/11/2016, the total amount of old notes (which are now withdrawn) of value of 8.11 lakh crore has been deposited by the customer till 27/11/2016. Banks started accepting deposits from 10<sup>th</sup> of November but within a period of 18 days around half money has been received by the banks. The show is still on. But, between this the Government again provided the scheme of pay tax and converts your black money into white money scheme launched. Is there any need for it?

### Challenges for Rural India

#### 1. Challenge for a Common Person of Rural India

As per the article published in business standard on 20 July 2011 there are only 7% internet banking customers of the bank surprisingly only 15% Indians are the active bank customers. Now, after demonitization, several cash withdrawal limits has been implemented by the Reserve Bank of India (RBI) and banking industry is suffering from cash crunch. Government focused on cash less transactions and E-money transfer with the use of internet banking but it is really difficult for the people of rural areas. One hand they are unaware from the technology and on the other hand they have a fear of cheating.

#### 2. Challenge for Farmers

Farmers are the backbone of Indian Economy. This time is very important for the farmers because this the crop time of wheat which is a major crop for all the farmers in this season. Now, there are basically three tyeps of problems which they are facing. One-The weekly withdrawal limit. i.e, 25,000 per weeks,Two- cash crunch in the banks, Three-the problem of ignorance about daily changing RBI guidelines.

### **3. Challenge for Families who have any Marriage Function Before 30<sup>th</sup> December, 2016**

Due to the Problem of weekly withdrawal limit they are also sufferer. RBI has revised rule of withdrawal for those families who have the marriage function and extended the withdrawal limit upto 2,50,000/- but there is a prescribed format of RBI. Compliance of that is somehow difficult. At the end of the format, one legal declaration is given which is more fearful. With the help of this complex from, Bankers are avoiding to pay a sum of 2,50,000 I had a conversation with many such persons has a sample study that is the head of these families they all told me that they could not get the extended limit. Even people are fighting to get 25,000.

### **4. Challenges for the Customers of Regional Rural Banks (RRBs)**

The RRBs are next sufferer of this demonitization. They are some sponsor nationalized banks of these RRBs. For example, in eastern Uttar Pradesh (UP) the Kshetriy Gramin Bank is sponsored by Bank of Baroda (BOB). Now, BOB is giving priority distribution of cash remittance of new currency to their branches and providing very less remittance to the Kshetriy Gramin Bank. I had a conversation with some of the branch managers (BM) of Kshetriy Gramin Bank. They told me that they are getting 2,00,000/- only twice in a week. Even in starting of season of cash crunch from 10<sup>th</sup> of November, they were unable to get remittance for 6 to 7 days. Now, we can feel the pain of customers of Kshetriy Gramin Bank. This became a bank that can only accept deposit but cannot disburse the cash.

### **5. Challenges for Stopping the Funding of Terrorism**

Yes, this is true that funding of terrorism via fake currency may be stop it immediately but the new currency will also be helpful for the terrorist because they have a strong network to

channelize the currency. Now, they can store double currency in same Elmira. Because before some days when some terrorist were killed by Army. Army told that new currency was received from their possession.

### **6. Challenges for Facing the Problem of Fake Currency**

Fake currency is highly circulated in the economy by the anti nation elements. Demonitization will definitely remove fake currency form the economy. But, it will have a short run impact. Because, the expert people will again print the new fake currency. In long-run the problem may appear same as it was before demonitization.

### **7. Challenges for Making the Black Money Worth Less**

Yes, theoretically it seems better that demonitization will help to reduce the black money and I think it may work. But, the new scheme of converting the black money into white money after paying 50% tax to the Government is a loophole which may bring the situation as previous and the purpose of demonitization will be objective less.

### **8. Challenges for Reducing the Corruption**

I opine that in long run it will not be effective to reduce the corruption. Because, people will not afraid from keeping black money. They will quote the privious experience. People will set an example that we can take advantage of conversion scheme of Government.

### **Conclusion**

Demonitization is good but our financial system should be ready for this change. Especially chest management should be ready accordingly to crack the liquidity trap. But, in current scenario, we can see that it has been failed at this point. Secondly, when the Government finds anybody with black money, that person must be charged under Indian Penal Code (IPC) as a criminal offence so that nobody

could dare to keep black money again in future. But, here the scene is adverse. The Government has provided a risk free gateway to pass the black money. RBI should seize all black money when it is found anywhere and after that at the end of the 31<sup>st</sup> March, 2017 which is the last day to deposit the old notes, RBI can print the currency as per the note realized old notes in terms of value. Under this way, RBI an Indian Economy will get more advantage as I opine. It will be too early to come at any conclusion

regarding the success or failure of this demonitization in Indian Economy. But, with the current inputs we can say that Indian Financial System and its regulators were not ready for this changes. Due to this, the laymen or the common person including farmers are the sufferers.

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## IMPACT OF DEMONETIZATION ON REAL ESTATE SECTOR

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### Abstract

*Most of India's business environment has been tremendously shaken up by the recent demonetization of the higher currency notes by the government. This is the third demonetization exercise undertaken by the Indian authorities, if we include the one done just before independence in 1946. It is still too early to accurately gauge the depth of the shakeup this has caused, but its impact on the real estate sector is immediately visible. Since government's surprise announcement, the ripples have been spreading through the already disturbed sector, which has been experiencing excruciatingly slow growth in recent times.*

**Keywords:** Demonetization, Real Estate, Black Money.

### Introduction

Prime Minister Narendra Modi's announcement of the discontinuation of currency notes of 500 & 100 denominations is a landmark policy decision which will have a far-reaching impact on the Indian Real Estate.

Significant reduction in black money and hoarding of cash is expected. The secondary real estate would be severely impacted by this step because of the currency involvement in such transactions. The primary real estate market will be slightly less affected as it is far more structured and less exposed to cash dealings.

A short-term crash in secondary real estate prices can be expected and this could be as much as 20-30% which will be good for the sector as yields will go up and volumes will return to the market. This correction will be more of a short-term thing, as long-term fundamentals of Indian Real Estate still say strong. The rental yields from properties are also expected to rise. The economy is doing better than before and the currency overhaul will only lead to further progress in the economy. With a more transparent outlook, Indian real estate, will now come at par with global standards and help it achieve a significant status in the global real estate market.

### Real Estate

Real estate is property comprised of land and the buildings on it as well as the natural

resources of the land including uncultivated flora and fauna, farmed crops and livestock, water and minerals. Although media often refers to the "real estate market" from the perspective of residential living, real estate can be grouped into three broad categories based on its use: residential, commercial and industrial. Examples of residential real estate include undeveloped land, houses, condominiums, and town homes; examples of commercial real estate are office buildings, warehouses, and retail store buildings; and examples of industrial real estate are factories, mines, and farms.

### Impact of Demonetization on Real Estate

Most of India's business environment has been tremendously shaken up by the recent demonetization of the higher currency notes by the Modi government. This is the third demonetization exercise undertaken by the Indian authorities, if we include the one done just before independence in 1946. It is still too early to accurately gauge the depth of the shakeup this has caused, but its impact on the real estate sector is immediately visible.

Since Modi's surprise announcement, the ripples have been spreading through the already disturbed sector, which has been experiencing excruciatingly slow growth in recent times. Poor sales leading to almost flat prices, heavy liquidity challenges and high

unsold inventory have all colluded to keep real estate sector away from fulfilling its potential - and provide necessary residential stability to average citizens.

### **Undeniable Impact on Real Estate**

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. However, almost all such incidences have been in the secondary sales market, where cash components have traditionally been a veritable 'must'. In other words, the resale properties segment will take a big hit. However, short-term pain is inevitable when we look for any eventual long-term cure for the disease. There has for long been a strident demand to bring transparency in the sector so that the it becomes more organized, and cash dealings must necessarily be the first symptom of the disease to be dealt with.

The luxury and high-end segments of residential real estate will also see a major impact from this exercise, since it is another area which has seen a lot of payments done in cash. The legal banking/financing channels have accounted for only a small part of all transactions in this space. The demonetization move is likely to result in luxury property prices dipping by as much as 25-30% as sellers struggle to offload properties to generate liquidity. This means that luxury home buyers will suddenly have a much wider bandwidth of options to choose from. With black money suddenly being wiped out of the market, a lot of investors who have been investing in projects with unaccounted-for money - and raising prices to book profits - will be eliminated from the system, thereby aiding a much-needed correction.

### **Overall Impact on the Sector**

In the past one year, there have been a few positive and potentially long-lasting changes in the Indian real estate. The passing of RERA

(Real Estate Regulation and Development Act 2016), the Benami Transactions Act and now the demonetization move will ensure that going forward; the sector will lose much of its historic taint and become more transparent. Only players who conduct their business with integrity will survive. This bodes well for end-users, who will be aware of their rights, have the assurance of not being cheated and will no longer need to contend with constantly rising prices. They will be able to buy properties of their choice at affordable prices, in projects which will assuredly be delivered on time.

The demonetization exercise was a very necessary step which was bound to bring with it a tremendous shake-up wherever black money has played a major role. Over the long term, the Indian real estate sector will emerge stronger, healthier and capable of long periods of sustained growth. As of now, there is no reason for developers and investors who have conducted their dealings transparently and legally to panic. It will essentially be business as usual for them.

### **How Demonetization Can Change Your Home-Buying Decision**

The "under control" inflation is usually 3-4%. We can expect the repo rate to come down in the next few months if inflation remains reigned in. (PTI) India's real estate market has seen a lot of churning of black money in the past. Even economists have been guarded in their opinions while trying to gauge the impact of demonetization on stemming black money. A lot of unaccounted wealth is tied up in real estate. However, the government is aware of this. So it is possible that the next step in curbing black money would be by way of going after real estate investments made through black money.

### **The Indian Real Estate Market: A Correction Is Imminent**

Post demonetization, many people are wondering if real estate prices are going to drop. There is a finite possibility that prices will



moderate in the coming months. "The reasons are obvious. Black money and corruption in real estate have been disrupted by demonetization. Cash-based transactions that were being done rampantly to save taxes and duties have been impacted. However, not all real estate property will be impacted by demonetization," says Adhil Shetty, CEO, BankBazaar. There are broadly two types of residential property—luxury housing and budget housing. The market for luxury housing may take a hit since this is where a great deal of undeclared income is invested. Budget homes, on the other hand, are often purchased by salaried people who pay taxes and whose incomes are declared. In such cases, property prices may not fall dramatically. The other way to view the impact would be through the type of builders. Established builders and Tier-1 property developers tend to keep their books clean, rendering the cash component of property purchases minimal to virtually nil. "Therefore, circulation of black money in real estate transactions in case of such builders may be small. This may not be the case, however, with other builders who tend to accept cash towards sale considerations, thus developing the scope for black money circulation," says Shetty. Apart from demonetization, there is the Real Estate Regulatory Act (RERA), which will make the real estate market more buyer-friendly. In the past, buyers were at risk especially from unscrupulous builders and fly-by-night operators. There were cases of delays in delivery, shoddy work, and outright cheating on promised area with confusing terms such as carpet area, built area, and the like. Usually, the agreement was found heavily in favour of the builder. RERA will, however, make property deals more transparent and fair to buyers.

### **Degree of Impact**

Though this is in the realm of speculation, most experts are of the view that property prices may correct further. This could be even more in case of luxury housing and in the resale market. As per a few reports, the prices of luxury houses have already come down by more

than 30% in a few circles in Mumbai and Delhi. This will remain so for the next 2-3 years depending on how fast the economy recovers from the demonetization impact. If the much-promised crackdown on real estate happens next year, we can see further drop in prices. However, things will eventually stabilize and honest property buyers will reap the benefits of a cleanup in real estate.

### **Conclusion**

Even now, despite the clear intent shown by the Central government on black money, many builders are holding onto old prices. Buyers need not hurry and can afford to wait for a few months. "Having said that, for serious buyers looking to purchase property in the immediate future, this is probably the best time to go through various options available in their city. They should carefully evaluate options, negotiate a good price with the builder, and shortlist their dream property," advises Shetty. Demonetization has brought down inflation. In fact, the inflation number that came in a week ago is the lowest in the last few quarters. Historically, the Reserve Bank of India has been open to lowering the repo rate when inflation is under control. The "under control" inflation is usually 3-4%. We can expect the repo rate to come down in the next few months if inflation remains reigned in. There are, however, some threats to the stability of inflation. The US Federal Reserve System has increased interest rates recently, taking the country out of the near-zero rate that has prevailed since the Great Recession. It has already resulted in capital outflow from emerging markets, including India, to the United States. "If the government takes a view on this, the RBI will find it difficult to lower the rate. Even if there is a cut in the repo rate, it may not be drastic. There are other pressures on the inflation rate, such as expected increase in the prices of fuel and food," says Shetty.

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## REVOLUTIONARY RENNAIASSNCE OF DEMONITIZATION IN INDIA

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### Abstract

*The enforcement of demonetization at a sudden period which necessitated at the administration to protect the economical status of every citizen of India to get benefits all welfare schemes in respect of rural and urban areas particularly people below poverty lines from the jaws of terrorism, tax evasion and counterfeit. Analyzing the various aspects like positive and negative impacts adequate opinions untainted from the various financial experts of the sectors. The benefit of the demonetization will be enjoyed in due course and not on a sudden one day. The countries both developed as well as developing will definitely follow this novel idea of demonetization for the welfare of their people.*

**Keywords:** *Demonetization, Government*

### Introduction

The government of India on November 8, 2016 announced that the five hundred and one thousand rupee notes will no longer be legal tender. The government also announced the issuance of new Rs. 500 and Rs.2, 000 banknotes in exchange for the old banknotes. 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 PM in an attempt to address the resolve against corruption, black money and counterfeit notes. 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.

### Demonetization History and Background in India?

The purpose of Demonetization, now enforced is entirely different from the demonetization already one in India in the years of 1946 and 1978. In the previous demonetization, the motto is to change the symbol and adding ethical slogans in the economy to pronounce the ethics and cultural symbols apart from avoiding heavy currency

value to utilize poor to rich. Whereas, present Demonetization is implemented like a sudden army attack against the Terrorism, counterfeit, smuggling which threatened the Nation to pull down economically in the world besides tried to make the people suffer more and more by a group of anti- social element cheating the Government and the innocent and illiterate weaving the false coats of Honesty accumulating enormous wealth unauthentic ally and spoiling the lives of the citizen.

**General Impact:** In this article, we highlight the probable consequences of this decision on various economic variables and entities.

**1. Effect on parallel economy:** The removal of these 500 and 1000 notes and replacement of the same with new 500 and 2000 Rupee Notes is expected to 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, temporarily stall the circulation of large volume of counterfeit currency and curb and funding for anti-social elements like smuggling, terrorism, espionage, etc.

**2. 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(only to a certain limits)

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.

### 3. Effect on Prices

- Consumer goods: Prices are expected to fall only marginally due to moderation in demand as use of cards and cheques would compensate for some purchases,
- Real Estate and Property: Prices in this sector are largely expected to fall, especially for sales of properties where major part of the transaction is cash based, rather than based on bank transfer or cheque transactions, In the medium term, however the prices in this sector could regain some levels as developers rebalance their prices (Probably charging more on cheque payment).

### 4. Effect on Various Economic Entities

With cash transaction lowering in the short run, until the new notes are spread widely into circulation, certain sections of the society could face short term disruptions in facilitation of their transactions. These sections are:

- Agriculture and related sector
- Small traders
- Service sector
- Households
- Political Parties

Professionals like doctor, carpenter, utility service providers, etc. The nature, frequency and amounts of the commercial transactions involved with these sections of the economy necessitate cash transactions on more frequent basis. Thus, these segments are expected to have the most significant impact post this demonetization process and the introduction of new notes in circulation.

### 5. Effect on GDP

The GDP formation could be impacted by this measure, with reduction in the

consumption demand. However with the recent rise in 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 Positive Consequences

A decision like this also has its negative consequences, but what are the positive effects? Out of the total circulation of currency about 16.6 lakh crores, 87 per cent is in Rs 500 and Rs 1,000. How much of this finances genuine economy versus the illicit economy is not very clear. Over and above, the fake currency in circulation that is not counted within this overall figure of 16.6 lakh crores. This directly affects security of India. For instance, 3 per cent of total money deposited in the banking since demonetization began was in Jammu and Kashmir banks. The extremists had threatened the people not to go and deposit the money. But people queued up in the banks! There has been a sudden drop in unrest – it means this has had a very positive impact in a very sensitive place like Jammu and Kashmir.

### • Effect of 'New Money' in the System

According to an estimate by State Bank of India, out of Rs 12 lakh crores in the cash economy, Rs 3 lakh crores may never come back into the system. So, this will be the monetary surplus in the Reserve Bank of India. Out of the Rs 12 lakh crores that comes in, the government should get substantial tax revenue of about Rs 2 lakh crores. This should have far-reaching consequences on the Indian growth story. If Rs 5 lakh crores is in cash economy, it just stays as Rs 5 lakh crores. But if Rs 5 lakh crores comes into the banking system, because of the fractional reserves basis, this Rs 5 lakh crores can become Rs 20 lakh crores. Let us assume Rs 100 is deposited in a bank. About one quarter of the amount will be invested in government bonds and reserves. The remaining 75 per cent will be available for lending. This 75 per cent gets into the banking system. My estimate is,

that at a minimum, the banking system multiplies the money in the system by three or four times. Money creation by banks will increase prosperity. The black or the cash economy therefore is inefficient in using money this way.

#### • **Why Demonetization Will Help Small Businesses**

Once these kinds of deposits come into the system, there will be an all-round reduction in interest rates. Big industries in India have access to foreign funds and are able to draw money at international rates. It is the small and medium industries that are paying very high rate of interests. The reduction in interest rates will be very good for our economy. Expect Land Prices to Go Down By 30-40 Per Cent

Because of the withdrawal of cash from real estate economy, land prices will moderate and moderate, I expect, by 30-40 per cent. This will increase the affordability of housing, most people are not able to afford houses because of high land prices. Construction prices are dependent on commodities, land prices are dependent on the amount of money that chases land.

#### **Conclusion**

The unhidden "Nobel thoughts " of the Demonetization like eradication of poverty in all walks of life for each and every citizen of our country are not high lightened here. Eradication of the devils and demons which the benefits given to the poor through numerous schemes for several decades can be narrated. The raising

of "Socialism" or "All to All policy in each and every citizen being in remotest villages and below poverty line families.

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## CASHLESS ECONOMY IN INDIA

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### Abstract

*Cashless economy is when the flow of cash within an economic system is non-existent and all transactions have to be through electronic channels such as direct debit, credit and debit cards, electronic clearing, and payment systems such as Immediate Payment Service (imps), National Electronic Funds Transfer (NEFT) and real time.*

**Keywords:** Demonetisation, cashless economy

### Introduction

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.



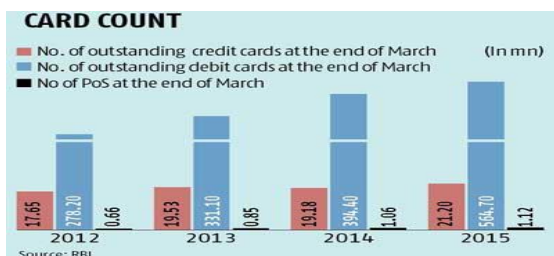
### Effects of cashless economy

- 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 blocked consider the holders will not be in a position to deposit the same in the banks.
- Temporarily halt the circulation of large volumes of counterfeit currency and curb the funding for anti-social elements like smuggling, terrorism, espionage etc.,
- No hassle to carry cash and less risky. I have seen in other countries you hardly need to carry any cash as most of the transactions can be cashless.
- You can view history of your expenses easily and manage your budget smartly.
- All cashless transactions become above ground and visible/traceable. So they are taxable (less black money) and also encourage people to transact legally and paid taxes.
- Taxes collection will increase significantly and that revenue can be used for the benefit of society- building infrastructure, helping your and less privileged people, education health care etc. It can be used to lift Indians out of poverty and also few economic growths.
- As tax collection increases: tax rate can be reduced (as tax net becomes wider) and tax rules simplify.
- Any monetary help to poor and needy people can be through banks transfer (even payment for rural employment generations scheme like MNREGA). No instances of middle man siphoning off the aid and exploiting the poor. This is coupled with infrastructure so that those people can use the money in their bank accounts for cashless transactions (even using non-smart feature phones).

### Benefits of Cashless Economy

- It will be very convenient for everyone in cashless transactions are widely accepted.

- It will be difficult to have counterfeit currency and / or support criminal activities and terrorism.
- Much better data of India's GDP including informal and service sector to understand what sectors are growing and where support is needed.
- Less need to print paper currency and replace it so reducing those costs.
- Wealth stored with banks as savings accounts, FDs or investments is used for productive use (Invested back in public and private sector by their banks) instead of wealth lying unused as stacks of currency bills hidden under mattresses and in cupboards.



### Disadvantages of a Cashless Economy

- 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.

### It is the end of Secrecy

- What if everything transaction you did was recorded in a central server and an unethical person had access to it.

### 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 (read digital divide) would be discriminated against.

### 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 cores if it raised call rates by 10 paise. Payment companies can achieve the same thing if all transactions move to cashless. They could increase charges by .01% 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.

### Conclusion

It can thus be concluded that with the increase in popularity of transactions through cards, cash is slowly but surely expected to die natural death. In a world where payments go online, cash serves very little purpose apart from creating a burden on the state. Doing away with cash addresses a very wide spectrum of problems, starting from counterfeiting, money laundering and bribery to tax dodging and criminal businesses.

While a cashless economy might take some time to get fully realized, it is something that's surely coming our way in the near future. Like everything else, a cashless society has its own

set of pros and cons. But the positives that we can get out of it outweigh any negative impact that it might have.

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## DEMONETIZATION WILL SMASHED OF BLACK MONEY

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### Abstract

*The economic growth is poor because proper taxes are not received by the government. People are facing problems because the limit of withdrawal has not been kept at a higher level. The income distribution becomes skewed. Black money has created a big black in hole in Indian economy & the entire burden is bearded by the common people of India. People of India have to come forward to fight against black money.*

**Keywords:** Demonetization, Black money

### Definition of 'Demonetization'

Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of currency. The old unit of currency must be retired and replaced with a new currency unit. The opposite of demonetization is remonetisation where a form of payment is restored as legal tender.

### Impact of Demonetization

The demonetization that has been in effect since November 9 is expected to have a negative impact on inflation. Consumer spending activity fell to a near halt. Consumers are refraining from making any purchases except essential items from the consumer staples, healthcare, and energy segments. Activity in the real estate sector, which includes a lot of cash and undocumented transactions, slowed down significantly, Metropolitan and Tier 1 cities reported up to a 30% fall in house prices.

Food item inflation, measured by changes in the Consumer Food Price Index, accounts for 47.3% of the overall CPI. Due to 86.4% of the value of the currency notes in circulation going out of the financial system and re-monetization being slow, the supply and demand of food items fell. It will exert more downward pressure on inflation.

### 'Black Money'

Black money is money which is earned through any illegal activity controlled by country regulations. Black money proceeds are usually received in cash from underground economic activity and, as such, is not taxed. Recipients of black money must hide it, spend it only in the underground economy, or attempt to give it the appearance of legitimacy through money laundering.

'Black money' or 'black income' or 'dirty money' is that money on which tax is not paid to the government and so it goes unaccounted in the duration of country's tax assessment period and hence causes big revenue losses to the government. It is argued that demonetization of higher currency notes can help curbing black money in the country.

In India, black money refers to funds earned on the black market, on which income and other taxes have not been paid or which is the proceeds of criminal activity such as bribery, kick backs and corruption. The total amount of black money deposited in foreign banks by Indians is unknown.

### Impact of Black Money in the Economy

- One of the biggest impacts is inflation and high price rise of commodities due to an increase in their demand. More money in the economy gives rise to more demand of commodities and hence their prices go up.



- The economic growth is poor because proper taxes are not received by the government.
- Black money also increases corruption. It is a cyclic procedure. Since black money cannot be officially spent, therefore it gives rise to further black money.
- The income distribution becomes skewed.
- The country's reputation in front of the world also goes down for e.g.: Transparency International's ratings.
- In India all sections of the society are accustomed to use cash transactions, and this habit is unscrupulously misused by some bad elements of the society. Such habit resulted in even people with accounted money are started using cash transaction for high value transactions.
- The move will either unearth the black money slashed in the form of cash or forces to destroy those unaccounted currencies. Demonetisation will curb the menace of black money and will help check stashing of funds to a large extent.
- Similarly it has major impact on corruption that exists in India and also on financing of terror activities in India. Hence it was considered as courageous step in the fight against unaccounted money

### Two Ways of Black Money

**Illegal:** Racketeering ,trafficking in counterfeit and contraband goods, smuggling, production and trade of narcotics, forgery, illegal feeling of forests, illicit liquor trade, robbery, kidnapping, human trafficking, sexualexploitation, cheating and financial fraud, embezzlement, drug money, bank frauds and illegal trade in arms.

### Legal

- Tax Evasion(Simple and vulnerable)
- Manipulation of Financial Records and Accounting(Sophisticated Approach)

### Top 10 Countries With Highest Black Money In the Word

Rank	Country Name	Black Money in Billions USD
1	United States	625.63
2	China	261
3	Mexico	126
4	Spain	124.06
5	Italy	111.05
6	Japan	108.3
7	Canada	77.83
8	India	68.59
9	United Kingdom	61.96
10	Russia	49.09

A source of income that violates the rules of a country or a money that is been received out of the way that is been defined by the Government is called Black Money. Amount gets accumulated as Black Money because people don't want to pay taxes to the government and want to accumulate as much amount as possible. According to Director CBI most of the Indians having black money do transfer their amount to other countries through illegal ways. Government has recently started curbing down this menace by demonetizing the 500 and 1000 notes. That means 500 and 1000 notes are no longer a legal tender exchange and government are issuing new 2000 and 500 currency notes. This is one big step towards curbing down the black money back and there are many more to come. India is one of the largest states in South East Asia with one of the largest populations in the world. The growth of the underground black market has been seen up to the major extent. Trillions of black money have been thrashed into the Swizz accounts by corrupt businessmen, politicians, and bureaucrats. The total amount of the black economy of the country is about \$68.59billions making it the third largest black markets Center in the whole of Asia.

**Source of Black Money**

1. Gambling
2. False Income Statement
3. Weapons Trading
4. Drug trafficking
5. Terrorism
6. Stolen goods and Selling counterfeit
7. Through any other act for bidden by law

**Effect of Demonetization on 'Black Money'**

1. The economic growth poor because proper taxes are not received by the government.
2. One of the biggest impacts is inflation and high prices rise of commodities due to an increase in their demand
3. People are facing problems because the limit of withdrawal has not been kept at a higher level.
4. The income distribution becomes skewed.

**Controlling the Black Money**

- Proper Tax Structure(GST,VAT)
- Simple Rules and Regulation
- Use of e-Money
- More Banking Transactions

- Use of PAN and Identity Proof
- Awareness of Benefit of Tax Payment

**Conclusion**

1. Black money has created a big black in hole in Indian economy & the entire burden is bearded by the common people of India.
2. People of India have to come forward to fight against black money.

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## DEMONETIZATION IMPACT ON THE STOCK MARKET

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### **Demonetization of Currency**

Demonetization of currency means discontinuity of the particular currency from circulation and replacing it with a new currency. In the current context it is the banning of the 500 and 1000 denomination currency notes as a legal tender. The government's stated objective behind the demonetization policy are as follows; first, it is an attempt to make India corruption free. Second it is done to curb black money, third to control escalating price rise, fourth to stop funds flow to illegal activity, fifth to make people accountable for every rupee they possess and pay income tax return. Finally, it is an attempt to make a cashless society and create a Digital India. There is a background to the current decision of demonetization of 500 and 1000 rupee notes. The government has taken few steps in this direction much before its November 8, 2016 announcement. As a first step the government had urged people to create bank accounts under Jan DhanYojana. They were asked to deposit all the money in their Jan Dhan accounts and do their future transaction through banking methods only.

The second step that the government initiated was a tax declaration of the income and had given October 30, 2016 deadline for this purpose. Through this method, the government was able to mop up a huge amount of undeclared income. However, there were many who still hoarded the black money, and in order to tackle them; the government announced the demonetization of 500 and 1000 currency notes.

The demonetization policy is being seen as a financial reform in the country but this decision is fraught with its own merits and demerits.

### **Merits**

The demonetization policy will help India to become corruption-free. Those indulging in taking bribe will refrain from corrupt practices as it will be hard for them to keep their unaccounted cash. This move will help the government to track the black money. Those individuals who have unaccounted cash are now required to show income and submit PAN for any valid financial transactions.

The government can get income tax return for the income on which tax has not been paid. The move will stop funding to the unlawful activities that are thriving due to unaccounted cash flow. Banning high-value currency will rein in criminal activities like terrorism etc. The ban on high value currency will also curb the menace of money laundering. Now such activity can easily be tracked and income tax department can catch such people who are in the business of money laundering. This move will stop the circulation of fake currency. Most of the fake currency put in circulation is of the high value notes and the banning of 500 and 1000 notes will eliminate the circulation of fake currency.

This move has generated interest among those people who had opened Jan Dhan accounts under the Prime Minister's Jan DhanYojana. They can now deposit their cash under this scheme and this money can be used for the developmental activity of the country. The demonetization policy will force people to

pay income tax returns. Most of the people who have been hiding their income are now forced to come forward to declare their income and pay tax on the same. Even though deposits up to Rs 2.5 lakh will not come under Income tax scrutiny, individuals are required to submit PAN for any deposit of above Rs 50,000 in cash. This will help the income tax department to track individuals with high denominations currency. The ultimate objective is to make India a cashless society. All the monetary transaction has to be through the banking methods and individuals have to be accountable for each penny they possess. It is a giant step towards the dream of making a digital India. If these are the merits, there are demerits of this policy as well.

### **Demerits**

The announcement of the demonization of the currency has caused huge inconvenience to the people. They are running to the banks to exchange, deposit or withdraw notes. The sudden announcement has made the situation become chaotic. Tempers are running high among the masses as there is a delay in the circulation of new currency.

It has deeply affected business. Due to the cash crunch, the entire economy has been made to come to a standstill. Many poor daily wage workers are left with no jobs and their daily income has stopped because employers are unable to pay their daily wage.

The government is finding it hard to implement this policy. It has to bear the cost of printing of the new currency notes. It is also finding it difficult to put new currency into circulation. The 2000 rupees note is a burden on the people as no one likes to do transaction with such high value currency. Some critics think it will only help people to use black money more easily in future. Further, many people have clandestinely discarded the demonetized currency notes and this is a loss to the country's economy.

### **Stock Exchange Definition**

Organized and regulated financial market where securities (bonds, notes, shares) are bought and sold at prices governed by the forces of demand and supply. Stock exchanges basically serve as (1) primary markets where corporations, governments, municipalities, and other incorporated bodies can raise capital by channeling savings of the investors into productive ventures; and (2) secondary markets where investors can sell their securities to other investors for cash, thus reducing the risk of investment and maintaining liquidity in the system. Stock exchanges impose stringent rules, listing requirements, and statutory requirements that are binding on all listed and trading parties. Trades in the older exchanges are conducted on the floor (called the 'trading floor') of the exchange itself, by shouting orders and instructions (called open outcry system). On modern exchanges, trades are conducted over telephone or online. Almost all exchanges are 'auction exchanges' where buyers enter competitive bids and sellers enter competitive orders through a trading day. Some European exchanges, however, use 'periodic auction' method in which round-robin calls are made once a trading day. The first stock exchange was opened in Amsterdam in 1602; the three largest exchanges in the world are (in the descending order) New York Stock Exchange (NYSE), London Stock Exchange (LSE), and the Tokyo Stock Exchange (TSE). Called also stock market.

### **Demonetization: Impact on Stock Markets**

For a week now demonetization of high value notes has been polarizing the country between those who totally support the idea and those who are against it. The move has had a big impact on the stocks markets. A lot of investors are withdrawing capital from stocks. Some because they are out of funds (since the currency they had at home no longer works) and others because they expect a crash, perhaps an opportunity to buy at lower levels.

Between all of this, I've heard some intelligent and some not so intelligent theories about markets, stocks, sectors and the overall economy. Here's what's doing the rounds; I leave it for you to judge what makes sense:

**1. Pharmaceutical stocks on a tear:** 1 day after the announcement, pharma stocks zoomed in trade. Some analysts credited Trump's winning the U.S. Elections since Clinton would have created regulatory hurdles for the sector. The most interesting analysis however came from one of my clients who called in with this – 'Sir, chemists are accepting Rs. 500 and Rs. 1000 notes for a few days. People are buying 1 year medicines in advance. I think Pharma companies will present very healthy Q3 results. Should I buy this. Genius.

**2. Housing finance:** HDFC, LIC Housing, Can Fin Homes, Gruh Finance, Repco home – some of these stocks have been favourites for most fund managers (I included) over the last 1 year. The fear is that as realty prices fall, some of the loans extended by these companies could default. This happens when the value of the outstanding loan exceeds the market price of the property. Ideally, these companies should extend a loan which is not more than the registered value of the property. Of course, the limits are often pushed. Now if you ask me, if house prices fall, it would be the best thing to happen for housing finance. Housing finance thrives when house prices come in the reach of salaried people and first time home buyers, the biggest market for housing finance. I am not sure how falling house prices are negative for this sector.

**3. Banking:** This is one sector which will benefit for sure. However here to, the house seems divided between those who like PSU bank vs. those who prefer pvt sector banks. No doubt that money will flow into all banks, may be a little more in public sector banks where all of the jandhan accounts were opened. That said, once the dust settles, pvt sector banks will continue to enjoy competitive advantages as

before. My views on this have been clear for many quarters now.

**4. Information Technology:** In the rush for fast buying and selling, everybody missed on this sector. First, everything bad that could have happened for IT happened over the last 1 year. First, there was the Brexit, then U.S. elections rhetoric – hike in visa fees for H1B visas, talk against outsourcing and finally currency volatility. Now the U.S. elections are out of the way, and tremors of Brexit are beginning to subside. Demonetization probably impacts the least on stocks in this sector. For one, they get most revenue in Forex and secondly, they get everything via banking channels. I expect this sector to do well going forward.

**5. Infrastructure:** If the government's deficit will go down, which seems to be the intention of this move, they government will have more money to pay for infra projects of which the direct beneficiary will be companies in this sector.

**6. Consumer Discretionary stocks:** Think of all companies where transactions happen in cash. Hotels, alcohol, restaurants, consumer electronics, cigarettes etc. Naturally, sales for these companies will come under pressure at least for this quarter. But how much should you worry or how much can they correct is anybody's guess. Usually, markets discount such one of events and if somebody sells these stocks for these reasons, somebody else will buy.

**7. Impact on Gold:** I have heard of people hoarding gold. In fact the tweet below sums up the situation perfectly. The person who narrated this story, told me that the tax officer bought gold at 2.5 times its market value. The thinking here is not the most novel. Buy gold today and in a year or so sell the gold for cash once new notes become available. If everyone starts doing this, gold prices could completely crash in future because of oversupply of gold. Further, many will be overpaying for gold today and will be selling it far cheaper in future. Of course, many would prefer to hold this gold for

many years to come. For them, the analysis of gold (read here) becomes more relevant.

**8. Oil and Gas:** Its no secret what I prefer between OMCs and exploration companies. Sure enough if the rupee appreciates, companies that import crude will benefit. But again a bigger impact for them would depend on what happens with the price of crude in the international market. I think the event is very neutral for both OMCs and exploration companies.

### Conclusion

In the short term, GDP will be down for at least a 1-2 quarters before recovering. A lot of black money will be converted to white and be deposited into the banks which will in turn help in the NPA problem that banks are facing. In the longer 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 what 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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## COMMON MAN FACING THE CONSEQUENCES OF THE CURRENCY BAN

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### Abstract

*People with black money obviously stands the most affected, there are several implications that have to be faced by the average middle class person, farmers, banks and the economy as a whole. The result, a move aimed at curbing corruption and black money is now being touted as a common man's biggest enemy. Poor and common people have to queue up outside banks for long hours to withdraw or deposit their own hard earned money. common man who is trying to evade taxes. Life is going to be a bit tough as it will take a bit longer than the loyal common man. The common man is one who is loyal and pays all his taxes. For such a person, demonetization is just a shift from traditional cash based transactions to cashless transactions. He does not have anything to worry.*

**Keywords:** *Demonetisation, remonetisation*

### Defintion of Demonetization

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 opposite of demonetization is remonetization where a form of payment is restored as legal tender. There are multiple reasons why nations demonetize their local units of currency. Some reasons include to combat inflation, to combat corruption, and to discourage a cash system. The process of demonetization involves either introducing new notes or coins of the same currency or completely replacing the old currency with new currency.

### People Suffering Defeat on Demonetisation

The common man can be divided into 3 major categories: Poor (in unorganized /sundry jobs /agriculture), Middle class and Jobless. The poor are affected as we are discussing, also they are not attuned towards electronic transactions and also in villages the infrastructure doesn't exist - yet they would (should) figure out and move towards alternative to currency quickly.

Eventually they need to move towards considerably cashless transactions within the next 3-6 months - else their livelihood would be severely affected. Middle class are not really affected by this other than inconvenience - they will switch towards electronic transactions fast - already happening. The job less who are looking for employment in the unorganized sector are going to be severely affected - they need to upgrade their skills - taking up courses such as "electrician", "plumber", "driver" etc. - They need to get their accounts created in payment mechanisms such as paytm etc. to receive and send money as low as Rs. 100 through mobile phones. For the other common man who is trying to evade taxes. Life is going to be a bit tough as it will take a bit longer than the loyal common man. Poor and common people have to queue up outside banks for long hours to withdraw or deposit their own hard earned money. People with black money obviously stands the most affected, there are several implications that have to be faced by the average middle class person, farmers, banks and the economy as a whole.

### Benefit to the Common Man

- Reduced the black money and corruption
- People income increased

- Time consuming
- People status increased

### **The Impact of this Move on the Common Man Includes**

#### **1. Financial/Business Impact**

- People with large amount of black money are using unscrupulous means to convert it into legitimate currency.
- A taxpayer has to stand in queues to withdraw his hard-earned money.
- Online companies are having the last laugh as most of the white income class is resorting to online.
- Small/medium sized business relying on cash transactions are seeing a total demand collapse.
- Gem and Jewelry business will be hard hit.
- Real estate prices will fall and the transactions volume will drop.
- Second-hand car market will crash badly.
- CAs will be having a time of their lives.
- Banks will be having a tough time. They will be flooded with cash.

#### **2. Political Impact**

- BJP will gain tremendously. Modi's portrait could replace Gandhi's portrait in coming time on the walls of government offices.
- All parties will join hands to paint the demonetization scheme as a big scam.
- Normal life may be impacted because of demonstrations.
- BJP may do reasonably well in Punjab and UP elections.
- No cash doles out in elections. Whole electioneering will change forever

#### **3 Social Impact**

- Low-income people have been impacted as their payments are delayed.
- Some people may commit suicide.
- Cashiers and bankers will get due respect in society.
- Marriages to become cheap. Death of dowry.
- All medicines in white money.

- Big blow to gambling.
- Death of drug mafia and terror networks.
- People now know moral status of their peers and neighbours better.

#### **4 Impact on Indian Economy**

- GDP will be impacted as consumption will fall -Indirect tax collection may be lower
- Disorganised work to move to organised sector.

Demonetisation may benefit India in long term:

1. Income taxes rates may come down.
2. Loans will become cheaper.
3. Housing will become affordable.
4. Asset classes
  - a. Bonds prices to increase in the near future
  - b. Real estates to fall
  - c. Gold rates to fall.
  - d. Equity markets to gain in next six to 12 months

#### **5. Impact on Economy**

- a. Fiscal deficit will come down
- b. Currency to become stronger
- c. Industry will become more productive
- d. Inflation will come down as housing prices will drop and food inflation will come down
- e. Tax rates will come down as more people will be in tax net
- f. Business will be able to borrow at cheaper rates
- g. FDI to sky rocket

#### **6. Social Impact**

- a. The society will become more equitable with lesser class distinction.
- b. Prosecution for people who are engaging in black money.
- c. Some slum dwellers may actually have to pay taxes and lose their BPL status
- d. Politics may change forever.

### **Conclusion**

The result, a move aimed at curbing corruption and black money is now being touted as a common man's biggest enemy.

The common man is one who is loyal and pays all his taxes. For such a person, demonetization is just a shift from traditional



cash based transactions to cashless transactions. He does not have anything to worry. His lifestyle will automatically get adjusted to the cashless transactions mode.

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## EFFECT OF DEMONETISATION IN INDIAN ECONOMY

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### Abstract

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. The GDP formation could be impacted by this measure, with reduction in the consumption demand. However with the recent rise in 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.

### History of Demonetisation

Historically, previous Indian governments had demonetised bank notes. In January 1946, banknotes of 100 and 1,000 rupees were withdrawn and new notes of 100, 500 and 1000 rupees were introduced in 1954. The Janata Party coalition government had again demonetised banknotes of 1,000, 5,000 and 10,000 rupees on 16 January 1978 as a means of curbing counterfeit money and black money.

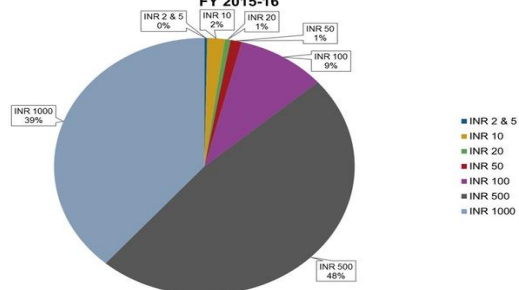
In 2012, the Central Board of Direct Taxes had recommended against demonetisation, saying in a report that "demonetisation may not be a solution for tackling black money or economy, which is largely held in the form of benami properties, bullion and jewellery". According to data from income tax probes, black money holders keep only 6% or less of their ill-gotten wealth as cash, hence targeting this cash may not be a successful strategy. *The High Denomination Bank Notes (Demonetisation) Act, 1978.*

### Percentage Share of Demonetisation in Circulation by Value in FY 2015-2016

On 28 October 2016 the total banknotes in circulation in India was 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 16.42 trillion (US\$240 billion) of which nearly 86% (around 14.18 trillion (US\$210 billion)) were 500 and 1,000 banknotes. In terms of volume, the report stated that 24% (around 22.03 billion) of the total 90266 million banknotes were in circulation.

Percentage Share of Denominations in Circulation by Value in  
FY 2015-16



Market Realist®

Source: The Reserve Bank of India

On 8 November 2016, an announcement was made by the Prime Minister of India Narendra Modi in an unscheduled live televised address to the nation at 20:15 IST. In the announcement, Modi declared circulation of all 500 and 1,000 banknotes of the Mahatma Gandhi Series as invalid effective from the midnight of the same day, and announced the issuance of new 500 and 2,000 banknotes of

the Mahatma Gandhi New Series in exchange for the old banknotes.

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.

### Gross Domestic Product

**Definition:** GDP is the final value of the goods and services produced within the geographic boundaries of a country during a specified period of time, normally a year. GDP growth rate is an important indicator of the economic performance of a country.

An IMF publication states that "GDP measures the monetary value of final goods and services - that is, those that are bought by the final user - produced in a country in a given period of time (say a quarter or a year).

### Problems Facing Indian Economy

1. Inflation
2. Poor educational standards
3. Poor Infrastructure
4. Balance of Payments deterioration.
5. High levels of private debt
6. Inequality has risen rather than decreased.
7. Large Budget Deficit
8. Rigid labor Laws
9. Inefficient agriculture
10. Slowdown in growth

### Components of Gdp

$$\text{GDP} = \text{C} + \text{I} + \text{G} + (\text{X} - \text{M})$$

C=Consumption

Personal Expenditure: Food, Households, Medical exp, rent etc..

I= Investment

Investment by business, construction a new mine, purchase of machinery for factory, purchase of software etc...

G= Government expenditure

Purchase of Weapons for the Military, Salary of public servants

X= Export

Gross exports, all goods and services produced for overseas consumption

M= Import

Gross import, any goods and services imported for consumption

### India GDP Performance in Last Two Years



SOURCE: WWW.TRADINGECONOMICS.COM | MINISTRY OF STATISTICS AND PROGRAMME IMPLEMENTATION (MOSPI)

### **Demonetisation Effect on GDP**

The GDP formation could be impacted by this measure, with reduction in the consumption demand. However with the recent rise in 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 Commerce And Industry Minister Nirmala Sitharaman Said , Despite Subdued Growth In The World Economy India Has Maintain A GDP Growth Rate Of 7.2% In 2014-15, 7.6% In 2015-2016, And 7.1% During April To September Of 2016-17. The government expects the GDP to grow at 8% in 2016-17 on the back of a bumper farm production due to normal monsoon.

### **PM & Finance Minister Report**

Finance minister Arun Jaitley, responding to a question at a press conference on Wednesday, ruled out any short-term impact of demonetization on growth, holding that it will rather benefit growth in the long run because “all this will impact the size of the GDP itself because more transaction that were happening outside the (formal) economy will get into the economy itself”.

The recently announced demonetization move by the Prime Minister of India, Narendra Modi, in order to curb the menace of black money is expected to have a detrimental effect on the country's gross domestic product (GDP) in the fiscal year 2017, owing to reduced consumption amid an environment of liquidity crunch.

### **Conclusion**

- The demonetization impact from India's GDP growth will be increase 0.5% to 1%.
- However, over the long term, the move will have far-reaching positive implications.
- Overall, India's demonetization has significant potential to lift its potential growth through a more transparent economy

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## IMPACT OF DEMONETIZATION IN AGRICULTURAL SECTOR

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### Abstract

*The agriculture could be referred to as the production, processing, promotion and distribution agricultural products. Agriculture plays a critical role in the entire life of a given economy. Agriculture is the backbone of economic system of a given country. In addition to providing food and raw material, agriculture also provides employment opportunities to very large percentage of population.*

**Keywords:** Demonetization, Agricultural sector

### Definition of 'Demonetization'

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.

### Impact of Demonetization

1. The opposite of demonetization is demonetization where a form of payment is restored as legal tender.
2. Liquidity crunch (short term effect): liquidity shock means people are not able to get sufficient volume of popular denomination especially Rs 500.
3. This currency unit is the favorable denomination in daily life. It constituted to nearly 49% of the previous currency supply in terms of value.
4. Welfare loss for the currency using population:
5. Most active segments of the population who constitute the 'base of the pyramid' uses currency to meet their transactions.



### Advantages of Demonetization in agricultural sector

- The biggest advantage of demonetization is that it helps the government to track people who are having large sums of unaccounted cash or cash on which no income tax has been paid because many people who earn black money keep that money as cash in their houses or in some secret place which is very difficult to find and when demonetization happens all that cash is of no value and such people have two options one is to deposit the money in bank accounts and pay taxes on such amount and second option is to let the value of that cash reduced to zero.
- Since black money is used for illegal activities like terrorism funding, gambling, money laundering and also inflating the price of major assets classes like real estate, gold and due to demonetization all such activities will get reduced for some time and also it will take years for people

to generate that amount of black money again and hence in a way it helps in putting an end this circle of people doing illegal activities to earn black money and using that black money to do more illegal activities.

- Another benefit is that due to people disclosing their income by depositing money in their bank accounts government gets a good amount of tax revenue which can be used by the government towards the betterment of society by providing good infrastructure.

### **Disadvantages of Demonetization in Agricultural Sector**

1. The biggest disadvantage of demonetization is that once people in the country gets to know about it than initially for few days there is chaos and frenzy among public as everybody wants to get rid of demonetized notes which in turn sometimes can lead to law and order problem and chaotic situation especially in banks and ATMs which are the only medium to change the old currency units to new currency units.
2. Another disadvantage is that destruction of old currency units and printing of new currency new units involve costs which has to be borne by the government and if the costs are higher than benefits then there is no use of demonetization.
3. Another problem is that majority of times this move is targeted towards black money but if people have not kept cash as their black money and rotated or used that money in other asset classes like real estate, gold and so on then there is no guarantee that demonetization will help in catching corrupt people.

As one can see from the above that demonetization has both advantages and disadvantages and it is up to the government to see and analyze all the pros and cons and then decide whether it is

beneficial to go ahead with demonetization or not.

### **Conclusion**

The agricultural sector is of vital importance for the region. It is undergoing a process of transition to a market economy, with substantial changes in the social, legal, structural, productive and supply set-ups, as is the case with all other sectors of the economy. These changes have been accompanied by a decline in agricultural production for most countries, and have affected also the national seed supply sectors of the region. The region has had to face problems of food insecurity and some countries have needed food aid for IDPs and refugees.

Due to the relatively low demographic pressure projected for the future, the presence of some favourable types of climates and other positive factors, including a very wide formal seed supply sector, it should be possible to overcome problems of food insecurity in the region as a whole, and even to use this region to provide food to other food-deficient regions. Opportunities must therefore be created to reach these results.

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## DEMONETIZATION IN BANKING SECTOR

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### Abstract

*It is a transformational decision taken by the government to ban Rs.500 and Rs.1000 notes from circulation in the market. The decision was taken to minimize the black money and corruption. The RBI will be issuing Rs.500 and Rs.2000 notes from today onwards. They have released a statement by saying that all the Rs.500 and Rs.1000 notes are to be deposited at nearby banks or post-offices. This will be a regular currency circulation all throughout India. All those people who are panicked with this move by the government need not worry at all as the government has assured that 'Your money will be yours. You will not lose anything so there is no point in being scared. There will be no restrictions on non-cash payments by cheques, demand draft's, and electronic fund transfer.*

**Keywords:** *Demonetization, Banking sector*

### Introduction

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.

### 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.

### CASA Indicates

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**

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.

### **Reasons of Demonetization**

We knew terrorism is a frightening threat, but who funds these terrorists? Our enemies they use the fake currency to sponsor terrorism 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.

### **Impacts of Demonetization**

#### **Inflation**

It will cause deflation in the market as people who have earned money through illegal ways would be afraid to declare the money as they may be prosecuted by the Income tax department on the legitimacy of their income.

#### **Reduction in Monetary Circulation**

This will lead to reduction of money circulation in the economy leading to deflation. Value of money will be increasing which we have because the total money supply will be

going down but the commodities and things available in the market have not gone down. It will lead to inflation slowly but not overnight.

### **Cash Deposits in Banks**

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.

### **Easy Loans**

Loans will become easier and interest rates may come down. As banks will have more money so more loans will be given out which will increase the money supply in the market and it will create inflation.

### **Advantages**

- The major decision which is made by the government will help us to eradicate black money, corruption to some extent.
- Due to lack of funding there will be no arms smuggling and all the terrorist activities will also be choked.
- The government has proposed the new limits on ATM withdrawals being restricted to Rs.2000 per day, withdrawal from bank account is Rs.10000 a day and Rs.20000 a week. It indicates that card transactions will slowly replace the cash transactions in our daily prone activities.
- Exchange of money in banks can only be done producing a valid identity cards like PAN, aadhar card and electoral card from 10 to 24 November with a daily limit of Rs.4000. By doing so it will be easy for the government to track the money which is being exchanged in banks. There is no limit if the amount which we are exchanging is legal amount.
- 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.
- Real estate industry is totally corrupted and now by this stringent decision the real estate sector will bring in more



transparency. By doing it in this way we will have more credibility, making it more attractive to the foreign investors as well as domestic investors.

### **Disadvantages**

- It will cause great inconvenience to common man who will start running to bank to exchange Rs.500 and Rs.1000 notes.
- By replacing all the Rs.500 and Rs.1000 denomination notes, as ordered by the government, could cost the RBI at least Rs.12000 crore.
- It will be very difficult for 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.

### **Conclusion**

The advantages are much dominating and it will be in the long term interest of our country comfortably outweighing the disadvantages. Government need to take all the necessary steps so as to ensure that there will be a smooth flow of currency exchanges. It would turn into chaos if government takes no necessary steps to circulate money correctly. It will make a massive change in our economy. We congratulate the entire government and those hidden brains of our democracy who brought this decision.

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## IMPACT TOWARDS REAL ESTATE SECTOR AFTER DEMONETIZATION

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### Abstract

*For many city dwellers, owing a home is always a distant dreams. unaffordable real estate prices compel them to stay in rented house instead, through the ban of 500 and 1000 RS, Many developers, resellers and homebuyers insist on having hard cash as a component of payment in real estate deals. After demonetization, people are likely to postpone their plans to buy property. How it creates impact towards real estate after demonetization.*

**Keywords:** Demonetization, Real estate sector

### Introduction

In 2016, the Indian government decided to demonetize the 500-and 1000-rupee notes, The two biggest demonization 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, to promote a cashless economy. To stop using(a mental)as a monetary standard .To officially stop using particular notes or coins or particular currency. Demonetization is necessary whenever there is change in national currency. The old currency to be replaced with new currency notes.

### Real Estate in India

Real estate is property comprised of land and the buildings on it as well as the natural resources of the land including uncultivated flora and fauna, farmed crops and livestock, water and minerals. Immovable property of this nature, an interest vested in this as an item of real property buildings or housing in general. The buildings can be used for research, production, storage, and distribution of goods. The real estate industry is a critical driver of economic growth. Realestate agents assist homeowners, businesses."A large cash component in the norm in the luxury housing segment, as many buyers insist on using cash.

### Effects of Demonetization on Real Estate

- The problem of slow sales, given the growing once. The problem of slow sales, given the growing uncertainty and negative impact on demand caused by demonetization.
- People are likely to postpone their purchases over properties.
- Secondary market will definitely impacted as it deals with significant amount of cash.
- There is an cut in the prices of real estate properties.
- Demonetization could bring down interest rates and force cuts in real estate prices
- The government surprise move to clamp down to ban 500 and 1000 rupees notes is expected to have a cooling effect on certain pockets of residential market in country.

### Positive Impact of Demonetization on Real Estate

**Cheaper Home Loans:** Banks are flooded with funds driving down interest rates on deposits and loan. Home loan rates expected to be down to 10-8%.

**Greater Return on Investment:** Investors find investing in property more attractive than earning a party 5-6% on bank desoposits as simply buying and renting out gives them more return. Plus they create an asset and earn appreciation over a period of time at the same time getting income tax deductions.

**Attractive Investment:** Historically at such low interest rates real estate industry gets a massive boost as property becomes attractive to both end users and investors.

**Lower EMI:** Demonetization on real estate brings EMI lower. Apartments to come within reach of buyers due to lower EMI on loans due to lower interest rates.

**More Buyers:** Demonetization will see the most money flowing in banking system from people to unorganized small scale sectors.

### **Disadvantages of Real Estate**

#### **Legal Difficulties**

Investing in real estate has the potential of being very confusing because it requires that you are fully aware of the laws in each jurisdiction that you own property. Some jurisdiction may even enforce land ceilings which can make the investment risky. The legal difficulties can become more complex.

#### **Maintenance Cost**

The cost of maintaining the property can cause the investor to lose money on the investment, in large cities, property taxes can be so high that it will be very difficult to resell the house at a higher value.

#### **Property Taxes**

Before investing in real estate, the investor should always factor property taxes into their valuation of property. In urban cities, property taxes can be significant and may cause the investor to lose a big chunk of their profit. Property taxes will vary depending on which city or state the property purchase in. Therefore, the investor should always consult with city officials before investing in property. It affects cash transaction, the real estate builders/plot owners will not accept heavy cash components (unaccounted money) in the money.

### **Impact on Demonetization on the Real Estate Sector is Instantly Visible**

Most of India's business environment has been tremendously shaken up by the recent demonetization of the higher currency notes by the Modi government. This is the third demonetization exercise undertaken by the Indian authorities, if we include the one done just before independence in 1946. It is still too early to accurately gauge the depth of the shakeup this has caused, but its impact on the real estate sector is immediately visible.

Since Modi's surprise announcement, the ripples have been spreading through the already disturbed sector, which has been experiencing excruciatingly slow growth in recent times.

### **Overall Impact on Sector**

In the past one year, there have been a few positive and potentially long-lasting changes in the Indian real estate. The passing of RERA (Real Estate Regulation and Development Act 2016), the Benami Transactions Act and now the demonetization move will ensure that going forward, the sector will lose much of its historic taint and become more transparent.

The demonetization exercise was a very necessary step which was bound to bring with it a tremendous shake-up wherever black money has played a major role. Over the long term, the Indian real estate sector will emerge stronger, healthier and capable of long periods of sustained growth. As of now, there is no reason for developers and investors who have conducted their dealings transparently and legally to panic. It will essentially be business as usual for them.

### **Conclusion**

Impact on land prices too. If the land prices crash on this account, there will be a likelihood of property. "There is no doubt that sales which involve the exchange of cash will be affected This y prices coming down as well". India's real estate market has seen a lot of churning of black

money in the past. Real estate is complex, opaque market, how prices move in the next few months would depend on how several price, drivers play out in this period. Due to demonetization there is huge impact on real estate sector affected greatly. So in future it will be an boon towards real estate.

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## DEMONETIZATION EVAPORATION OF TERRORIST ACTION

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### Abstract

*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. The aim is to wash the stock of "black money" out of the economy and get it into the licit, banked and taxable, part of the economy. The microeconomic effects here seem, as I've said before, to be beneficial. It reaches more than the immediate target victims and is also directed at targets consisting of a larger spectrum of society. It is both mala prohibit (i.e., crime that is made illegal by legislation) and mala in se (i.e., crime that is inherently immoral or wrong). 2001-Indian parliament attack, 2008-Mumbai Taj Hotel Attack, 2014-Chennai central Bomb Blasts, 2016-Pathankod airforce station attack, 2016-J&K Baramulla attack. Ever since the Indian Prime Minister Narendra Modi announced the demonetization of the 500 and 1000 Indian currency notes, the Indian state of Jammu and Kashmir has suddenly seen a massive downward spiral in instances of violence and stone pelting.*

### Introduction

The demonetization effort being led by PM Modi in India is that idea that Rs 500 and Rs 1,000 notes should be declared no longer legal tender, to be replaced by other notes of different designs and in one case, denominations. The aim is to wash the stock of "black money" out of the economy and get it into the licit, banked and taxable, part of the economy. The microeconomic effects here seem, as I've said before, to be beneficial. There have long been concerns about terror financing through forged notes for example. There's quite obviously substantial tax revenue going uncollected. And perhaps the biggest effect is, as I've said, that large portions of the population feel that the basic system is unfair. They're locked out of that easier world where matters are settled in large amounts of cash, where tax is not paid and where favors are bought.

### Overview of Terrorism

- It is the use of violence or threat of violence in order to purport a political, religious, or ideological change.
- It can only be committed by non-state actors or undercover personnel serving on the behalf of their respective governments.

- It reaches more than the immediate target victims and is also directed at targets consisting of a larger spectrum of society.
- It is both mala prohibit (i.e., crime that is made illegal by legislation) and mala in se (i.e., crime that is inherently immoral or wrong).

### Terrorism Attack in India

#### 1. 2001 Indian Parliament attack

On 13 December 2001, 9 terrorists infiltrated the Parliament House in a car with Home Ministry and Parliament labels. While both the Rajya Sabha and Lok Sabha had been adjourned 40 minutes prior to the incident, many members of parliament (MPs) and government officials such as Home Minister LK Advani and Minister of State for Defence Harin Pathak were believed to have still been in the building at the time of the attack. More than 100 people, including major politicians were inside the parliament building at the time. The gunmen used a fake identity sticker on the car they drove and thus breached the security deployed around the parliamentary complex. The terrorists carried AK47 rifles, grenade launchers, pistols and grenades. Delhi

Police officials claimed that gunmen received instructions from Pakistan and the operation was carried out under the guidance of Pakistan's Inter-Services Intelligence (ISI) agency.

## 2. 2008 Mumbai attacks

The 2008 Mumbai (Bombay) attacks were a series of attacks that took place in November 2008, when 10 members of Lashkar-e-Taiba, an Islamic militant organisation based in Pakistan, carried out a series of 12 coordinated shooting and bombing attacks lasting four days across Mumbai. The attacks, which drew widespread global condemnation, began on Wednesday, 26 November and lasted until Saturday, 29 November 2008, killing 164 people and wounding at least 308. Eight of the attacks occurred in South Mumbai: at Chhatrapati Shivaji Terminus, the Oberoi Trident, the Taj Mahal Palace & Tower, Leopold Cafe, Cama Hospital, the Nariman House Jewish community centre, the Metro Cinema and in a lane behind the *Times of India* building and St. Xavier's College. There was also an explosion at Mazagaon, in Mumbai's port area, and in a taxi at Vile Parle. By the early morning of 28 November, all sites except for the Taj Hotel had been secured by Mumbai Police and security forces. On 29 November, India's National Security Guards (NSG) conducted 'Operation Black Tornado' to flush out the remaining attackers; it culminated in the death of the last remaining attackers at the Taj Hotel and ended the attacks.

Ajmal Kasab disclosed that the attackers were members of Lashkar-e-Taiba, among others. The Government of India said that the attackers came from Pakistan, and their controllers were in Pakistan. On 7 January 2009, Pakistan confirmed the sole surviving perpetrator of the attacks was a Pakistani citizen. On 9 April 2015, the foremost ringleader of the attacks, Zakiur Rehman Lakhvi, was granted bail against surety bonds of ₹200,000 (US\$1,900) in Pakistan.

## 3. 2014 Chennai train bombing

The Guwahati-bound train from Bangalore, Guwahati-Bangalore Express, was scheduled to arrive at Chennai around 05:30 AM IST, but it had arrived late around 07:05 AM IST. While the train was stationed at Platform 9 of the railway station, two bombs exploded at the junction of S4 and S5 coaches at 07:15 AM IST. Upon hearing the explosion, panicked passengers rushed out of the train.<sup>1</sup> One of the bombs had exploded under the seat of a 24-year-old woman, identified as Swathi Parachuri, employed with Tata Consultancy Services in Bangalore. Parachuri, the only person killed in the attack, was travelling to her home town Guntur in Andhra Pradesh. Of the fourteen injured passengers, five were admitted in serious condition at Rajiv Gandhi General Hospital.

## 4. 2016 Pathankot attack

The **2016 Pathankot attack** was a terrorist attack committed on 2 January 2016 by a heavily armed group which attacked the Pathankot Air Force Station, part of the Western Air Command of the Indian Air Force.

Four attackers and two security forces personnel were killed in the initial battle, with an additional security force member dying from injuries hours later. The gun battle and the subsequent combing operation lasted about 17 hours on 2 January, resulting in five attackers and three security personnel dead. A further three soldiers died after being admitted to hospital with injuries, raising the death toll to six soldiers. On 3 January, fresh gunshots were heard, and another security officer was killed by an IED explosion. The operation continued on 4 January, and a fifth attacker was confirmed killed. Not until a final terrorist was reported killed on 5 January was the anti-terrorist operation declared over,

## 5. 2016 Baramulla attack

Terrorists on Sunday night attacked adjoining army and Border Security Force (BSF) camps in Baramulla in north Kashmir, about 50 km from capital Srinagar. A BSF personnel has died and another has been injured. The army said after about two hours of an intense gun battle that the firing had stopped and that the situation was "contained and under control." In the middle of the night, said sources, it was difficult to ascertain whether the terrorists, believed to be about three to four in number,

may have fled. A search and cordon operation is now on in the area to secure it. The terrorists attacked the 46 Rashtriya Rifles camp of the army and the adjacent BSF camp in main town Baramulla in two groups at about 10.30 pm on Sunday. Heavy firing and loud grenade blasts were heard. Sources said the attackers managed to enter the fringes of the BSF camp. They are suspected to have entered India across the Jhelum river

## Impact on Terrorism in India



## Loss of the Nation



At around 5:30 a.m. on 18 September, four militants attacked an Indian Army brigade headquarters in Uri, near the Line of Control in a pre-dawn ambush. They were said to have lobbed 17 grenades in three minutes. As a rear administrative base camp with tents caught fire,

17 army personnel were killed. A gun battle ensued lasting six hours, during which all the four militants were killed. An additional 19-30 soldiers were reported to have been injured in the attack. Combining operations continued to flush out additional terrorists thought to be

alive. Most of the soldiers killed were from the 10 Dogra and 6 Bihar regiments. One of the injured soldiers succumbed to his injuries on 19 September at R&R Hospital in New Delhi, followed by another soldier on 24 September, bringing the death toll to 19 and thousands of army persons death in the terrorist attack in the nation.

### Impact on Terrorism in Demonetization

Ever since the Indian Prime Minister Narendra Modi announced the demonetization of the 500 and 1000 Indian currency notes, the Indian state of Jammu and Kashmir has suddenly seen a massive downward spiral in instances of violence and stone pelting. The reasons are there for all to see. The move to demonetize the 500 and 1000 rupees currency notes 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. The modus operandi of the terror industry was simple. Sizeable chunks of money, estimated around 800 to 1000 crores annually, were delivered to separatist leaders and local politicians to fuel protests in the Kashmir valley.

Indian Intelligence sources mentioned that in the past year, Pakistan pumped in approximately 1000 crore for the single purpose of fomenting terror in Jammu and Kashmir and disrupt peace in the valley. The Pakistani intelligence agency ISI served as the chief agency through which such funds were dispersed among the terror agents in Pakistan occupied Kashmir. 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.



### Demonetization Drive Has Destroyed Terrorist Networks

The Kashmir Valley where nearly Rs 3,000 crore of hawala money in circulation is of 'no use'.

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. Besides terror, the four-month-long unrest in the valley, erupted after the killing of self-styled HuM commander Burhan Wani by security forces in July, is also expected to be wiped out in the absence of cash inflow, security agencies believe. Major chunk of the hawala money is delivered to separatist leaders and local politicians to fuel protestors. According to Intelligence estimates, Pakistan pumps in Rs 800-1,000 crore annually for the separatist groups alone in Jammu and Kashmir. In this action is totally stopped.

### Conclusion

No use of 500 & 1000 rupees not so that the terrorist action is stopped. Unfortunately, in India, such centralised monitoring is rendered difficult with a structural inadequacy and bureaucratic inelasticity to keep pace with innovative terrorism. Our counter-terrorism (CT) machinery is under 29 state governments and the NIA has not expanded to take over a country-wide mandate. That is why we had to be alerted by the British Channel 4 to locate the "Shami Witness" in December 2014. As a result,



India never took note of the ISIS threat until late 2015, although the government was warned since 2014 by many, including this writer. Strangely even as late as May 24, 2016, our home minister had maintained that ISIS posed no threat to India. Again it was only during late 2015 that we started considering the need for de-radicalisation despite global indications of its benefits. The UK was saved from the ISIS when it was trampling upon Europe only because of its “channel process” programme from 2009. Under this, 4,50,000 frontline staff were trained on the legal “prevent” strategy, supplementing vigilance by the MI-5 and local police. UK has been terror free since 2013 even though nearly 850 of its youth had joined ISIS.

Finally, it is the quality of our CT machinery which prevents terrorism and not our currency. The joint ambush by the anti-talks ULFA and NSCN(K) in Pengari, Assam on November 19 killing three army Jawans is a clear indication that terrorists would strike with or without demonetisation. Thus “ending terrorism through demonetisation” will remain only a political slogan.

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## DEMONETIZATION ROLE IN ERADICATING CORRUPTION

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### Abstract

*Corruption may include many activities including bribery and embezzlement, though it may also involve practices that are legal in many countries. Corruption is wrong doing on the part of an authority or powerful party through means that are illegitimate, immoral, or incompatible with ethical standards. Corruption scam in include Indian coal allocation scam, 2G spectrum scam, wakf board land scam, commonwealth games scam and telgi scam. People in power who have the advantage of accumulating bribed money will become richer & richer and the poor people who try to pay huge amounts as bribes will remain in debt thus creating a huge rift between the rich & the poor. With the help of education we can reduce corruption .We can make country clear from corruption and make country better.*

### Demonetization

The process of removing a currency from general usage, or circulation. The opposite of demonetization is remonetization where a form of payment. The process of demonetization involves either introducing new notes or coins of the same currency or completely replacing the old currency with new currency. 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.

### Corruption

Corruption is a form of dishonest or unethical conduct by a person entrusted with a position of authority, often to acquire personal benefit. Corruption may include many activities including bribery and embezzlement, though it may also involve practices that are legal in many countries. Government, or 'political', corruption occurs when an office-holder or other governmental employee acts in an official capacity for personal gain.

Stephen D. Morris, a professor of politics, writes that [political] corruption is the

illegitimate use of public power to benefit a private interest.

Economist Ian Senior defines corruption as an action to (a) secretly provide (b) a good or a service to a third party (c) so that he or she can influence certain actions which (d) benefit the corrupt, a third party, or both (e) in which the corrupt agent has authority.

Daniel Kaufmann, from the World Bank, extends the concept to include 'legal corruption' in which power is abused within the confines of the law—as those with power often have the ability to make laws for their protection.

Corruption is wrong doing on the part of an authority or powerful party through means that are illegitimate, immoral, or incompatible with ethical standards.

### Top Corruption Scams in India

#### 1. Indian Coal Allocation Scam - 2012 - 1,86,000 Crore

While many think that 2G scam remains the biggest one in size in India. But this coal allocation scam dwarfs it by the amount involved. This scam is in regards to Indian Government's allocation of nation's coal deposit to PSU's and private companies. The scam happened under Manmohan Singh government and came out in 2012. The basic premise of this scam was that wrongful allocation of Coal

deposits by Government without resorting to competitive bidding, which would have made huge amounts to the Government (to tune of 1.86 Lakh crore). However, the coal deposits were allocated arbitrarily.

## **2. 2G Spectrum Scam - 2008 - 1,76,000Crore**

We have had a number of scams in India; but none bigger than the scam involving the process of allocating unified access service licenses. At the heart of this Rs.1.76-lakh crore worth of scam is the former Telecom minister A Raja – who according to the CAG, has evaded norms at every level as he carried out the dubious 2G license awards in 2008 at a throw-away price which were pegged at 2001 prices.

In some respects, this remains the biggest scam in India if you consider the inflation. The 2G spectrum allocation happened 5 years earlier than Coal Scam which came out in 2012. The cases are still going on against many people including A. Raja, M. K. Kanimozhi and many telecommunication companies as well.

## **3. Wakf Board Land Scam - 2012 - 1.50,000 Crore**

In March of 2012, Anwar Maniappddy, the chairman of Karnataka State Minorities Commission submitted a sensational report which alleged 27,000 acres of land, which was controlled by Karnataka Wakf Board had been allocated illegally or misappropriated. The value of land which was misappropriated was in tune of 1.5 to 2 lakh crore rupees. The land managed by Wakf board, a Muslim charitable trust, is typically donated to under-privileged and poor people of Muslim community. However, the report alleged that nearly 50 percent of the land owned by Wakf board was misappropriated by Politicians and Board members in conjunction with real estate mafia at fraction of actual land cost. The investigations for this are currently ongoing.

## **4. Commonwealth Games Scam - 2010 - 70,000 Crore**

Another feather in the cap of Indian scandal list is Commonwealth Games loot. Yes, literally a loot! Even before the long awaited sporting bonanza could see the day of light, the grand event was soaked in the allegations of corruption. It is estimated that out of Rs. 70000 crore spent on the Games, only half the said amount was spent on Indian sportspersons. The Central Vigilance Commission, involved in probing the alleged corruption in various Commonwealth Games-related projects, has found discrepancies in tenders – like payment to non-existent parties, will-ful delays in execution of contracts, over-inflated price and bungling in purchase of equipment through tendering – and misappropriation of funds.

## **5. Telgi Scam - 2002 - 20,000 Crore**

As they say, every scam must have something unique in it to make money out of it in an unscrupulous manner- and Telgi scam had all the suspense and drama that the scandal needed to thrive and be busted. Abdul Karim Telgi had mastered the art of forgery in printing duplicate stamp papers and sold them to banks and other institutions. The tentacles of the fake stamp and stamp paper case had penetrated 12 states and was estimated at a whopping Rs. 20000 crore plus. The Telgi clearly had a lot of support from government departments that were responsible for the production and sale of high security stamps.

## **Impact of Demonetization in Corruption**

People in power who have the advantage of accumulating bribed money will become richer & richer and the poor people who try to pay huge amounts as bribes will remain in debt thus creating a huge rift between the rich & the poor. The consequence of this extreme inequality in the society will brew disunity, envy, hatred & enmity between the people of the haves and the have-nots. According to World Bank Development (1997), FDI may still flow to

countries in which corruption is systemic but only if bribery is affordable and results are predictable. Corruption can have a negative effect on foreign investment because for most foreign firms corruption is a cost of doing business to be recouped from revenues. Consequently if the costs become too high or unpredictable, they disengage or shun the country altogether. High levels of corruption add to the risk of Ghana being marginalized in the international economy.

Because of corruption, maintenance and repairs always takes a back seat to new projects. For fear of being exposed, corrupt officials prefer to approve new projects rather than spend to revamp the old corrupt projects they approved in the first place. The result is that new projects are constantly being undertaken whilst existing infrastructure is left to deteriorate. Finally empirical research and regression analysis indicates that the amount of corruption is negatively linked to the level of investment and economic growth, that is to say, the more corruption, the less investment and the less economic growth. Analysis further shows that if the corruption index improves by one standard deviation (equal to 2.38 in this case--a standard deviation measures variation from the "normal" index), the investment rate increases by more than 4 percentage points and the annual growth rate of per capita GDP increases by over a half percentage point. In effect, a country that improves its standing on the corruption index from, say, 6 to 8 (recall that 0 is most corrupt, 10 least), will enjoy the benefits of an increase of 4 percentage points of investment, with consequent improvement in employment and economic growth.

### **How can corruption be controlled?**

#### **1. The First Tool Is Education**

With the help of education we can reduce corruption. According to a report by Transparency International, the least corrupt state is Kerala, the reason being that Kerala's literacy rate is highest in India. So we can see

how education effects education. In most of the states, normally a fairly large number of people are uneducated. Those who are uneducated do not know about the process, provisions and procedures through which they can get justice. Corrupt public servants try to make a fool of them and often demand bribes. It is due to unawareness in the field of law, public rights and procedures thereof that a common and an uneducated suffer out of the corrupt society. This suggests that if we are educated, we can understand our rights well.

#### **2. Change In The System Of Government.**

If the members of the governing body are government officials, there will certainly be less reports of the criminal cases. The reverse may be possible only when there are no more criminal politicians in our government. The provision is that, if there is any case filed against a person then he would not be eligible for election. But if we see 100 politicians then about 60% of those would have a criminal case against them. If these 'criminal' politicians are in charge of forming and implementing laws, what type of law would be formed, one can only guess! Thus during election, we should keep in mind the person for whom we shall not vote. In India there is a provision that no person as a criminal shall be allowed as a Member of Parliament or member of legislative. Unfortunately a fairly large number of them are a part of it.

#### **3. Increasing Direct Contact Between The Government And The Governed.**

E-governance could help a lot towards this direction. In a conference on, "Effects of Good Governance and Human Rights" organized by National Human Right Commission, A. P. J. Abdul Kalam gave an example of the Delhi metro rail system and online railway reservation as good governance and said that all the lower courts should follow the example of the Supreme Court and High Court and make judgments available online. Similarly, SivraPatil said that the Right to information should be

used for transparency. We have legal rights to know a lot of information. According to this act, (Right to Information act 2005), generally people should follow the procedure of law given to them when their work is not being implemented in a proper way in public services. This act is a great help in the order to control corruption.

#### **4. Making Stringent Laws For Punishing The Corrupt And Blocking Every Way Of Escape.**

We should be honest to ourselves. Until and unless we will not be honest, we can't control corruption. If each of us is honest towards our profession, then corruption will automatically decrease. We need to pay attention towards professional accountability i.e., how much we are faithful and truthful towards our profession. Corruption may be controlled by handling five major professions: *lekhpal*, medical, revenue, police and judicial. If the proceedings are fast, people may see that if they do wrong or commit any crimes then they will have to face punishment.

#### **Conclusion**

- Corruption is an illegal thing that we couldn't do, because, without corruption we can be a good generation for country.
- We can make country clear from corruption and make country better.

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## IMPACT OF DEMONETIZATION ON GOLD AND AGRICULTURE INDUSTRY

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### Abstract

*Money is current medium of exchange in the form of coins and banknotes. It is an official currency, coins, and negotiable paper notes issued by a government. But when demonetisation occurs the current value of the issued currency notes has come to an end. They became a scrap of paper. Demonetization is like a coin. It has both sides holding two different faces. In the war against defilement, the administration of India's choice to suspend the Rs 500 and Rs 1000 notes is one of the greatest hits to the individuals who gain and stash dark cash. And also it affects the all industries which are mainly depending upon cash. In this article we are going to discuss the impact Demonetization on Gold and Agricultural Industry in India.*

### Demonetization

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. Scaling back large bills will not end crime, but it will force the underground economy to employ riskier methods. Demonetization is a net positive move.

### Demonetization in India

The term demonetization is *not new* to the Indian economy. The highest denomination notes 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. In both cases, the goal was to combat tax evasion by "black money" held outside the formal economic system.

- In 1946, the pre-independence government hoped demonetisation would penalize Indian businesses that were concealing the fortunes amassed supplying the Allies in World War II.
- In 1978, the Janata Party coalition government demonetised banknotes of 1000, 5000 and 10000 rupees, again in the hopes of curbing counterfeit money and black money.

- In 2012, the Central Board of Direct Taxes had recommended against demonetisation, saying in a report that "demonetisation may not be a solution for tackling black money or economy, which is largely held in the form of benami properties, bullion and jewellery." 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.
- In 2016, The plan to demonetise the Rs.500 and Rs. 1000 bank notes began six to ten months prior, and was kept highly confidential with only about ten people aware of it completely. The logistical processes and preparations for printing the new Rs.500 and Rs.2000 bank notes began in early - May. The cabinet was informed about the demonetisation on 8 November 2016 in a meeting called by the Prime Minister of India Narendra Modi which was followed by Modi's public announcement about the demonetisation in a televised address.

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. 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.

There are multiple reasons why nations demonetize their local units of currency. Some reasons include to combat inflation, to combat corruption, and to discourage a cash system. The process of demonetization involves either introducing new notes or coins of the same currency or completely replacing the old currency with new currency.

## Agriculture

Agriculture is the science, art or practice of farming, including cultivation of the soil for the growing of crops and the rearing of animals to provide food, wool, and other products. Agriculture and allied sectors like forestry and fisheries accounted for 13.7% of the GDP (gross domestic product) in 2013 about 50% of the workforce in India.

In India, As per the 2010 FAO world agriculture statistics, India is the world's largest producer of many fresh fruits and vegetables, milk, major spices, select fibrous crops such as jute, staples such as millets and castor oil seed. India is the second largest producer of wheat and rice, the world's major food staples.

India is the world's second or third largest producer of several dry fruits, agriculture-based textile raw materials, roots and tuber crops, pulses, farmed fish, eggs, coconut, sugarcane and numerous vegetables. India ranked in the world's five largest producers of over 80% of agricultural produce items, including many cash crops such as coffee and cotton, in 2010. India is one of the world's five largest producers of

livestock and poultry meat, with one of the fastest growth rates, as of 2011.

## Impacts of Demonetization in Indian Agriculture

- Demonetization of Rs.1000 and Rs.500 notes has the desired effect, only time will tell, but its slowdown effect on Indian agriculture and related industries cannot be denied.
- November is a crucial time for farmers in India. They have just harvested the Kharif crop, but are finding it **hard to get timely payment** for their produce.
- Cash is the primary mode of transaction in agriculture sector which contributes 15% to India's total output. Keeping in mind the **huge dependence** of the farm sector **on cash**, it is feared that farmers, especially small and marginal among them, may be adversely affected, offsetting the benefits of a good monsoon season after two years of drought.
- Agricultural growth in India contracted 0.2% in 2014-15 and grew no more than 1.2% in 2015-16, largely because of inadequate monsoon and back to back droughts in some areas.
- Farmers in the middle of the rabi sowing need to buy seeds & fertilizers and other agri inputs. But they are reportedly **running out of cash** and may **not be able to buy** these much needed products.
- In the midst of the cash crunch, even **middlemen** are finding themselves **difficult to help** them out.
- The demonetization-led slowdown is impacting the agro chemical industry as well. As far as Insecticides (India) Ltd. is concerned, this is normally a time for good collection from the market, but it has been affected for the last 10 days.
- 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 centres or mandis, 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 into bank accounts with limited access affect the sector.

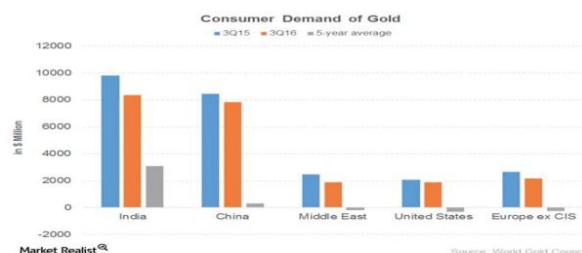
- Production in 2016-17 could drop if sowed acreage (rabi) reduces for want of enough seeds on time to exploit the adequate soil moisture. Yields could fall from late sowing and subsequent exposure to rough spring weather, the lack of sufficient or timely application of fertilizers, pesticides, etc.
- 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.
- Vegetables 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.

## Gold

Gold is a precious chemical element that is a valuable, shiny, yellow metal used to make coins and jewellery. The world consumption of new gold produced is about 50% in jewellery, 40% in investments, and 10% in industry. Gold has been widely used throughout the world **as money**, for efficient *indirect exchange* (versus

barter), and to store wealth in hoards. For exchange purposes, mints produce standardized gold bullion coins, bars and other units of fixed weight and purity.

- According to World Gold Council, China is the world's largest single consumer of gold in 2013 and toppled India for the first time with Chinese consumption increasing by 32 percent in a year, while that of India only rose by 13 percent and world consumption rose by 21 percent. Unlike India where gold is used for mainly for jewellery, China uses gold for manufacturing and retail.



## Impacts of Demonetization in Indian Gold

- In Mumbai, Jewellers sold 15 tonnes of gold ornaments and bars, worth around Rs 5,000 crore, on the intervening night of November 8 and 9 after the government demonetised Rs 500 and Rs 1,000 denomination notes, said Surendra Mehta, national secretary of India Bullion & Jewellers Association (IBJA). IBJA has 2,500 jewellers registered with it from across the country.
- "We estimate gold worth Rs 5,000 crore, or around 15 tonnes, was sold between 8 pm on November 8 and 2-3 am the next day, after the PM's demonetisation announcement," Mehta told ET. He said nearly half of these sales happened in Delhi, UP and Punjab. He claimed that only 1,000 of around 6 lakh jewellers across the country had accepted Rs 500 and Rs 1000 notes in exchange for gold on the night of November 8.
- The demonetization drive in India led to a surge in gold prices as everybody rushed to convert the abolished notes into gold and silver. Gold jewellery and gold imports recorded a sudden spike in November.
- After few days did see the shutters of jewellery stores closed, as there were



practically **no** sales due to the lack of new currency in the market and the strict implementation by the regulators.

- However, in a country where the appetite for gold is insatiable, demonetization may have slowed down the gold demand for a couple of months. The demand will be back on track and so will the gold imports.
- In November, when most weddings take place in India. This year was expected to be different by some because of demonetisation, and this seemed borne out in the precipitous drop in prices over the past two months. But, interestingly, demonetisation seems to have had the opposite effect to what some suggested.
- Gold consumption didn't weaken, or even hold steady in November. It boomed. That challenges the view that India has been a drag on gold over the past month.
- Demonetization created fear regarding the ways gold will be taxed by the government. Finance Minister Arun Jaitley tweeted a snapshot of the income tax law in respect of gold jewellery to bring more clarity.

## Conclusion

Demonetization left a deep impression on the severely cash-driven economy. As liquidity is flowing into banks, consumer demand and bank credit is falling. Demonetization strikes the growth and functions of Indian agriculture and related industries. Notable number of farmers' suicides occur not only for demonetization but it also one of the factors.

Gold is the endless place of refuge for each emergency. Demonetization has greatly affected valuable metals. Gold hit a three-year high overnight: from Rs. 30,000, 10 grams' gold now floats close Rs. 32,000. Experts trust those accumulating dark cash will stop their cash in gold; its request is relied upon to hit the rooftop. Gem specialists trust the market will flourish as individuals "have more trust in adornments than cash notes". People are now trusting gold than cash.

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## DEMONETIZATION- IMPACT ON DIGITAL PAYMENT

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### Abstract

*Digital payment is a way of payment which is made through digital modes. In digital payments, payer and payee both use digital modes to send and receive money. It is also called electronic payment. No hard cash is involved in the digital payments. All the transactions in digital payments are completed online. It is an instant and convenient way to make payments. Digital payments save you from long queues of ATMs and banks. Because, if you pay digitally, you won't need to withdraw cash from your account. It also lots of time and a little bit money as well. digital payment modes are based on mobile phone, the internet and cards. These modes are somewhat difficult for non-technical persons such as farmers, workers etc. Digital payments are more convenient than cash payments. Hence, we can say that Digital payments is the future of fund transfer and money transactions.*

**Key words:** Keywords: Demonetization, Black money

### Demonetization

- Trying to make someone or a group of people seem as if they are evil.
- Describing somebody/ something in a way that is intended to make other people think of them as dangerous.
- Marking out or describing as evil or culpable.

### Digital Payment

Digital payment is a way of payment which is made through digital modes. In digital payments, payer and payee both use digital modes to send and receive money. It is also called electronic payment. No hard cash is involved in the digital payments. All the transactions in digital payments are completed online. It is an instant and convenient way to make payments.

If we talk about cash payments, you have to first withdraw cash from your account. Then you use this cash to pay at shops. Shopkeeper goes to the bank to deposit the cash which he got from you. This process is time-consuming for you and also for the shopkeeper. But in digital payments, the money transfers from your account to the shopkeeper's account immediately. This process is automatic and

neither you nor the shopkeeper is required to visit the bank.

Digital payments save you from long queues of ATMs and banks. Because, if you pay digitally, you won't need to withdraw cash from your account. It also lots of time and a little bit money as well.

### Different Types of Digital Payments

From commonly used cards to newly launched UPI, digital payments has many types of payment. Some modes meant for tech-savvies and some for less-technical persons. Below are the different modes of digital payments.

### UPI apps

UPI or unified payment interface is a payment mode which is used to make fund transfers through the mobile app. You can transfer funds between two accounts using UPI apps. You will have to register for mobile banking to use UPI apps. Currently, this service is only available for android phone users. Hence you can use UPI only when you have an android phone.

You need to download a UPI app and create a VPA or UPI ID. There are too many good UPI apps available such as BHIM, SBI UPI app, HDFC UPI app, iMobile, PhonePe app etc. It is not

mandatory to use the UPI app from your bank to enjoy UPI service. You can download and use any UPI app.

UPI apps are a faster solution to send money using VPA or even IFSC and account number. But they have some limitations also. If you do not have an android phone you cannot use UPI app, It is not for you. Lack of stable internet connection can also cause trouble for these apps.

### **AEPS**

AEPS is an Aadhaar based digital payment mode. The term AEPS stands for Aadhaar Enabled Payment Service. Customer needs only his or her Aadhaar number to pay to any merchant. AEPS allows bank to bank transactions. It means the money you pay will be deducted from your account and credited to the payee's account directly.

You need to link your Aadhaar number with your bank account to use AEPS. Unlike cards and USSD, AEPS does not have any charges on transactions. You can use AEPS with the help of PoS (Point of sale) machines. You can withdraw or deposit cash, send money to another Aadhar linked account with it. The good thing about AEPS is that it doesn't need your signature, bank account details or any password. It uses your fingerprint as a password. No one can forge your fingerprints, thus it is the most secure digital payment mode.

### **USSD**

USSD banking or \*99# Banking is a mobile banking based digital payment mode. You do not need to have a smartphone or internet connection to use USSD banking. You can easily use it with any normal feature phone. USSD banking is as easy as checking your mobile balance. You can use this service for many financial and non-financial operations such as checking balance, sending money, changing MPIN and getting MMID.

The \*99# code works as a bridge between your telecom operator's server and your bank's

server. It uses your registered mobile number to connect with your bank account. Hence, dial \*99# with your registered number only. USSD banking has a transaction limit of Rs. 5000 per day per customer. RBI has also set a maximum charge of Rs. 2.5 per operation.

### **Cards**

Cards are provided by banks to their account holders. These have been the most used digital payment modes till now. Many of us use cards for transferring funds and making digital payments. Credit cards, debit cards and prepaid cards are the main types of cards. You can also use Rupay debit card for digital payments.

**Credit cards** are issued by banks and some other entities authorized by RBI. These cards give you the ability to withdraw or use extra money. Credit cards are used for domestic as well as international payments.

**Debit cards** are issued by the bank where you have your account. You can use these cards for the money in your account. The payments you make with these cards debit from your account and credit immediately to the payee's account. You can use these cards to make payments to one bank account to another.

**Prepaid cards** are another type of cards which you use to pay digitally. You must have to recharge these cards before using just like prepaid SIM cards.

Cards are one of the best modes when you pay at portals or E-commerce sites. But if we talk about paying to merchants it is not the most suitable way. It charges 0.75% - 2.0% on transactions. Also, you cannot use cards to pay if the merchant does not have a PoS (swipe) machine.

### **E-Wallets**

E-wallet or mobile wallet is the digital version of your physical wallet with more functionality. You can keep your money in an E-wallet and use it when needed. Use the E-wallets to recharge your phone, pay at various places and send money to your friends. If you

have a smartphone and a stable internet connection, you can use E-wallets to make payments. These E-Wallets also give additional cashback offers. Some of the most used E-wallets are State bank buddy, ICICI Pockets, Free charge, Paytm etc.

Also Read: BHIM Vs Paytm

E-Wallets are an easy and faster way to make payments but have some limitations. These apps are good if you send money to a wallet to another. But if you want to send money to a bank account these apps are not suitable. Also, you have to be extra careful with these apps. These apps do not ask for any PIN or password when you perform a transaction using your wallet money. If you do not lock your phone, anyone can use the money in your wallet. I suggest you must lock your phone if you want to use E-Wallet apps.

### **Impact on Demonetization in Digital Payment Difficult for a non-technical person**

As most of the digital payment modes are based on mobile phone, the internet and cards. These modes are somewhat difficult for non-technical persons such as farmers, workers etc.

### **The risk of data theft**

There is a big risk of data theft associated with the digital payment. Hackers can hack the servers of the bank or the E-Wallet you are using and easily get your personal information. They can use this information to steal money from your account.

### **Overspending**

You keep limited cash in your physical wallet. Hence, you think twice before buying anything. But if you use digital payment modes, you have all your money with you always. This can result in over spending.

### **Conclusion**

- Digital payments are more convenient than cash payments.
- Hence, we can say that Digital payments is the future of fund transfer and money transactions.

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## ECONOMIC CONSEQUENCES OF DEMONETISATION

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### Abstract

*The government of India announced that the Rs.500 and Rs.1000 denominated currency notes will cease to be legal tender. The move targeted towards tackling black money, corruption, terror financing. After initial euphoria, questions began to emerge, what are the effects of demonetization? Will it be effective? Will it increase the GDP? Will it increase inflation? What about tax revenues? Demonetization to have positive impact on economy.*

**Keywords:** *Demonetization, Remonetization, Digital India*

### Introduction

In an important move, the government of India declared that five hundred and one thousand rupee notes will no longer be the legal tender from 8 November 2016. The RBI will issue two thousand rupee notes and new notes of five hundred which will place in circulation from 10 November 2016. Notes of one hundred, fifty, twenty, ten, five and one rupee will remain legal tender and will remain unaffected by this decision. This measure has taken by Prime minister in an attempt to address the resolve against corruption, black money, and counterfeit notes. Demonetization is an established practice in monetary policy to tackle black money. The idea of demonetization is good but it has to be taking into consideration that most of the black money is kept in the form of land, buildings, or gold or kept abroad. Our future economy is depends on Remonetization through digital payments and goods and services tax and inclusive growth.

### Need of Demonetization

The impact of demonetization is to eradicate the black money and corruption and terror financing and to elevate through digital payments for this multi pronged strategy is needed. In this context, the exercise may produce following short term, long term, consumption, investment, welfare, and growth impact on Indian economy. The intensity of

demonetization effects clearly depends upon the duration of liquidity shocks.

### Effects of Demonetization

- **Welfare loss for the currency using population**

Most active segments of population who constitute the 'base of the pyramid' use the 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.

- **Liquidity crunch**

Liquidity shock means people are not able to get sufficient volume of popular denomination especially Rs.500.

- **Consumption will be hit**

When liquidity shortage strikes, it is consumption that is going to adversely affect first. [I.e. Consumption, production, employment, growth, investment]

- **Effect on parallel economy**

The removal of these 500 and 1000 notes and replacement of the same with new 500 and 2000 rupee notes is expected to 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, temporarily stall the circulation the volume of counterfeit currency and curb the

funding of anti-social elements like smuggling, terrorism, espionage, etc.

- **Effect on money supply**

When the older 500 and 1000 rupee notes being scrapped, until the new notes get circulated in the market, money supply is expected to reduce in the short run. However gradually as the new notes get circulated in the market and the mismatched gets corrected, money supply will pick up.

- **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, and automobile [only to a certain limit]. All these mentioned sectors are expected to face certain moderation in demand from consumer side, owing to the significant amount of cash transactions involved in these sectors.

- **Effect on prices**

Price level is expected to be lowered due to moderation from demand side. The demand driven fall in prices could be understood as follows;

Consumer goods- prices are expected to fall only marginally due to moderation in demand as use of cards and cheques would compensate for some purchases. Real estate and properties- prices in this sector are largely expected to fall, especially for sale of properties where major part of the transaction is cash based, rather than based on banks transfer or cheque transaction. In medium term, however the prices in this sector could regain some levels as developers rebalance their prices [probably charging more on cheque payment]

- **Effect on various economic entities**

With cash transaction lowering in the short run, until the new rupee notes are spread widely into circulation certain sections of the society could face short term disruptions in facilitation of their transactions.

These sectors are:

- Agriculture and related sector
- Small traders
- SME [small and medium enterprises]
- Services sectors
- House holds
- Political parties
- Professionals like doctors, lawyers, service providers, etc
- Retail outlets
- Effect on GDP

There will be loss of growth momentum because India raises its position of being the fastest growing largest economy, reduced consumption, income, investment, etc, may reduce India's growth as the liquidity impact itself may last three-four months.

- **Effect on banks**

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. Loans will become easier and interest rates may come down. 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 saving and current account of commercial banks.

- **Effect on online transactions and alternative mode 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 [debit and credit cards], etc. will definitely see substantial increase in demand. This should eventually lead to strengthening of such systems and the infrastructure required.

### **Benefits of Demonetization**

- In spite of the initial hiccups and disruptions in this system, eventually this

change will be well assimilated and will prove positive for the economy in the long run.

- Black money hoarders will definitely lose out, eventually boosting the formal economy in the long run.
- Short term fall in real estate prices might benefit middle class citizens.
- This move by the government along with the implementation of the GST will eventually make the system more accountable and efficient.
- No restrictions of any kind on non cash payments by cheques, demand drafts, debit or credit cards and electronic fund transfer.
- Due to lack of funding there will be no arms smuggling and all the terrorists activities will be choked.
- Financial intelligence units will track all details of the transactions from the banks. So now it is really difficult to get rid of the black money.

#### **Disadvantages of Demonetization**

- It will cause great inconvenience to common man who will start running to the bank to exchange Rs.500 and Rs.1000 notes.
- By replacing all the Rs.500 and Rs.1000 denomination notes, as ordered by the government, could cost the RBI at least Rs.12000 crore.

- It will be very difficult for half of the population who are not well versed with the card and online 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.

#### **Conclusion**

The advantage is much dominating and it will be in the long term interest of our country comfortably outweighing the disadvantages. Government need to take all necessary steps so as to ensure and enhance that there will be smooth flow of currency exchanges. It would turn into chaos, if government takes no necessary steps to circulate money correctly. It will make a massive change in our economy. Therefore, "Demonetization is the demon and not demon" & "Demonetization is the consequence to remonetizes the economy and pledge for growth".

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