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*Special issue on*

**DEMONETIZATION IN INDIA**  
**-The Philosophy, Practice and Problems**

**Edited by**  
P.RamaKrishnamRaju  
P.V.Rama Raju







# INVITATION



UGC Sponsored  
National Seminar on

## DEMONETIZATION IN INDIA -The Philosophy, Practice and Problems 16-12-2016

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## -The Philosophy, Practice and Problems

16-12-2016

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**December, 2016**

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Message

We are happy to know that *D.N.R College (A), Bhimavaram, Andhra Pradesh* is conducting a national Seminar on "*Demonetization-The Philosophy, Practice & Problems*" on 16<sup>th</sup> December, 2016.

There is a need to gradually adopt online monetary transactions following Demonetization brought up by Government of India. It is expected that this process will take us towards cash-less economy ensuring transparency & efficiency in the functioning of the system. This is also expected to bring benefits in several other areas of national concern such as curbing terrorism, naxalism etc. it is expected to change the human behavior at large.

On behalf of UGC, we congratulate the College on this auspicious occasion. The theme of the seminar is contemporary and relevant. It is expected that the proceedings of this National Seminar will update the knowledge of participants and immensely benefit all the stakeholders of the society.

With regards,

Yours faithfully,

(G.Srinivas)

06/12/2016

Principal  
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## Demonetization - Online Transactions

P.Rama Krishnam Raju, Principal, D.N.R.College (Autonomous), Bhimavaram

### Abstract:

*Demonetization is a process by which a series of currency will not be legal tender. The series of currency will not be acceptable as valid currency. The demonetization was done in as an effort to stop counterfeiting of the current currency notes allegedly used for funding terrorism, as well as a crackdown on black money in the country. The move is also aimed at reducing/eradicating the corruption, drug menace, and smuggling and to eliminate terrorist and extremist activities in India. The demonetization, by removing 86 per cent of the currency in circulation, has resulted in a very severe contraction in money supply in the economy. Rural sales have been significantly come down in the last few weeks. Replacement of new Currency notes within short period would help to escape from the major effect on the economy. Agriculture, Automobiles and Construction sectors have badly affected. The Government of India should take all steps to upgrade the Banking system as well as in the Telecom infrastructure that would provide the backbone for digital transactions. The attitude of the people should also be changed to carry on online money transaction to the maximum extent. The usage of cash for payments should be minimized. The public should also use Debit and Credit cards whenever payments are made. Mobile Banking and Online Banking transactions would minimize the payment difficulties.*

**Key words:** *payment difficulties, demonetization, terrorist*

### Introduction:

Demonetization is a process by which a series of currency will not be legal tender. The series of currency will not be acceptable as valid currency. Demonetization is not new to India, but the pronouncement, by our beloved Prime Minister Mr. Narendra Modi in an unscheduled live televised address to the nation on 08-11-2016 at 08:15 pm, came as a bolt from the blue. In his address he declared that all 500 and 1,000 Rupee currency notes, which are in circulation, stand invalid and announced the issuance of new 500 and 1,000 Rupees currency notes with new series in exchange of the old. The demonetization was done in as an effort to stop counterfeiting of the

current currency notes allegedly used for funding terrorism, as well as a crackdown on black money in the country. The move is also aimed at reducing/eradicating the corruption, drug menace, smuggling and to eliminate terrorist and extremist activities in India. Hawala transactions used to be carried out in the denominations of Rs. 500 and Rs. 1,000 will be stopped. Demonetization of currency denominations was also taken up in the past. In January, 1946, currency notes of 1,000 and 10,000 rupees were withdrawn and new notes of 1,000, 5,000 and 10,000 rupees were introduced in 1954. The Janata Party coalition government has again demonetized currency notes of 1,000, 5,000 and 10,000 rupees on 16<sup>th</sup> January



1978 as means to curb counterfeit money and black money.

The proposal by the present 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 since there are limits placed on the amount that individuals can withdraw. In the months to come, this squeeze may be relaxed somewhat. The reasons offered for demonetization are two-fold: one, to control counterfeit notes that could be contributing to terrorism, in other words a national security concern and second, to undermine or eliminate the "black economy". After the official announcement made by Prime Minister Sri Narendra Modi, the Governor of RBI Mr. Urjit Patel and Economic Affairs Secretary, Shaktikanta Das explained in a press conference that while the supply of notes of all denominations had increased by 40% between 2011 and 2016. The 500 and 1,000 rupees currency notes increased by 76% and 109% respectively in the same period owing to forgery. The forgery cash was then used to fund terrorist activities against India. As a result the decision to eliminate these currency notes has been taken up.

**Impact of Demonetization on Economy:**

The demonetization, 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 transactions in the economy, the above would mean a severe contraction in income and consumption in the economy. This effect would be more severe on individuals who earn incomes in cash and spend it in cash. To a lesser extent it would also affect individuals who earn incomes in non-cash forms but need to withdraw in cash for consumption purposes, since a number of sectors in the economy still work predominantly with cash. In terms of the sectors in the economy, the sectors to be adversely affected are all those sectors where demand is usually backed by cash, especially those not within the organised retailing. For instance, transport services, kirana, fruits and vegetables and all other perishables, would face compression in demand which is backed by purchasing power. This in turn can have two effects: while it is expected that supply exceeds demand, there would be a fall in prices, however, if supply too gets curtailed for want of a medium of exchange, prices might, in fact, rise. Thus, while generally people seem to expect prices to fall, it is quite possible that prices would instead rise.

**Impact on Rural sales:** The Managing Director of Godrej Consumer Products Ltd. Mr. Vivek Gambhir said that the fast moving consumer goods (FMCG) industry, which was looking forward to good sales following a robust monsoon this year, has been impacted by demonetization. Rural sales had begun picking up post-harvest from October onwards due to good monsoon. This has, however, been significantly came down in the last few weeks due to demonetization. Since the rural economy is largely cash based and wholesaler dependent, the



large cash crunch has led to a slowdown in rural sales.

**Impact on Investment and Employment:**

To keep the flows going, people might take recourse to credit - both the retailers and other agents in the economy might make supplies on credit in the hope that when the liquidity status is corrected, the payments can be realized. There would be a compression of the demand for non-essentials by all the agents in the economy in the face of uncertainty in the availability of cash. The demand from segments which have access to digital medium of exchange would remain unaffected, but that from the rest of the economy would get compressed. This would transmit the effect to the rest of the sectors in the economy as well. The real estate sector would be badly affected. Investment in construction sector would be comedown and the employability opportunities in the said sector would also be minimized.

**Impact on Agriculture:** Replacement of new Currency notes within short period would help to escape from the major effect on the economy. This would depend on the speed with which and the extent to which the cash is replaced by the authorities. If the entire cash is replaced within a short duration of time, the effects beyond the very short term of two months might be little. But a few sectors are likely to be seriously affected. It is known fact that in our Country the Agriculture sector has been providing larger employment opportunities both directly and indirectly which also help to have strong economy. This is the sowing season for the Rabi crop in some parts of the country and the harvesting season for the Kharif crop. Most of the purchases

and sales in this segment of the economy are carried out through cash. With the elimination of cash from the economy, sale of kharif crop would be difficult unless the crop is sold on the promise of payment in future. Given the limited bargaining power of the farmer, the price they can realize for the crop can be adversely affected. On the other hand, in the sowing activity, people would not get access to the inputs required since most of the inputs are now purchased from the market unless they seek access to credit from the supplier. Further, if there are agents who do not get access to credit from the informal sector agents, their sowing activity and hence their incomes in the next season would be adversely affected. Thus, in spite of a good monsoon in large parts of the country, the farmer might not get the benefits.

**Impact on Construction and Automobile sectors:**

No doubt the Construction sector would be adversely affected. This sector works with a significant amount of cash. Payments to workers as well as a variety of purchases might be carried out in cash. So, on the supply side, this sector can be adversely affected. On the other hand, on the demand side, the demand for houses and buildings would appear as a demand for non-essentials and might be pushed on to the back burner until the economic situation normalizes. The Automobile sector has also been facing discouraging situation as the sales of Motor Vehicles drastically come down. Public is afraid of purchasing vehicles out of their own funds. Previously certain share of the cost price of the vehicle is met out of black money.

**Implementation of Online banking transactions:** The Government of India



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

**Steps to be taken by the Government to carry on online transactions:** The Government of India has developed some apps to carry out digital transactions. These apps are developed in English language. Those who are not well versed with English language can't carry out digital transactions of their own. So the government should develop the said apps in regional languages also. The public should also use Debit and Credit cards whenever payments are made. Mobile Banking and Online Banking transactions would minimize the payment difficulties. The Government should offer certain concessions / privileges to the people who are doing online money transactions.

**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 middle class people feel that the Government has taken up this demonetization so hurry without thinking the difficulties of the common man. What the quantum of new currency ( Rs. 2000 notes) seized from the black money holders is very little. Large quantum of the same is still lying with the Politicians, Bureaucrats, Smugglers, Corporate people, Anti-social activists etc. Demonetization move will be good for the Indian economy in the medium to longer term. However, that this challenge is a temporary one. The situation should be normalized from the last quarter of fiscal year 2017 onwards, as the liquidity crunch eases.

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## Demonetization affects India

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K.Satyanarayana, Lecturer, Department of Commerce, D.N.R.College(Autonomous),  
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### Abstract:

Even as most leading brokerages view the government's decision to ban Rs 500 and Rs 1,000 notes as positive from a medium-term perspective, the short-term impact will be negative for most pockets in the economy. As a result, performance of India Inc as well as the economy is likely to be muted in the ongoing quarter, believe analysts. Purchase of fertilisers and agrochemicals; usually done via cash, too, could come down. All metal companies will be negatively impacted as a large part of trading in steel and other metals is carried on a cash basis currently.

**Key words:** demonetization, short-term impact, small borrowers

### Introduction

There are many sectors having high proportion of cash transactions and these will be impacted even as receivables of companies in these segments will go up. Among these, real estate and jewellery sectors, though, would be the worst-hit because these are the preferred investments of Indian consumers for their black money. Typically, the high cash component provided working capital for many builders and its absence could hurt their financials. Also, it could hurt demand emanating from customers inclined towards paying cash, and consequently force builders to lower real estate prices going forward. "But, in the long run, due to affordable prices and low supply, this sector will experience positive demand scenario," says Vinay Khattar, head of research at Edelweiss Securities.

**Immediate effects of demonetization :**  
Upcoming ordering as well as ongoing

activities in roads, water, railways and transmission and distribution sectors, too, will be impacted as payment to labour is usually made in cash. Low number of bank accounts in remote, small villages and supply-chain disruptions could affect demand for consumer staples for a brief while, believe analysts. The demand impact of large-ticket consumer durables items such as apparels, white goods, apparel and the likes could also head south.

Likewise, purchase of fertilisers and agrochemicals; usually done via cash, too, could come down. All metal companies will be negatively impacted as a large part of trading in steel and other metals is carried on a cash basis currently.

The short-term debt servicing capacity of small borrowers could be reduced, which may impact the asset quality as well as credit growth of microfinance companies such as Bharat Financial Inclusion, Ujjivan Financial Services, Equitas, among others, believe



analysts. Housing finance companies, too, could witness pressure on their credit quality as well as growth, as fall in real estate prices would impact the loan against property (LAP) business.

Even e-commerce players are likely to feel the heat in the near- to medium-term. Cash on delivery forms anywhere between 70 and 90 per cent of e-commerce players' revenues and, hence, can impact valuations of retail e-commerce players, estimate analysts at JM Financial.

On the flipside, banks stand to gain meaningfully from implementation of demonetisation, but over a period of time. While operating costs could increase in the immediate future, there would be an increase in the low-cost current and savings accounts (CASA), which in turn will rub off favourably on the banks' funding costs and liquidity. Rising use of credit/debit cards, net banking and other online payment mechanisms will be another positive, as these would not only lower transaction costs but some of these could help earn some fee income as well.

Mining will be another sector to benefit from this move as the move to ban Rs 500 and Rs 1,000 notes will hurt illegal/unauthorised mining activities, aiding organised players such as Coal India, NMDC, among others, say experts. While manufacturers of passenger cars and utility vehicles such as Maruti Suzuki, Tata Motors, among others, will not be impacted meaningfully given that most of their products (80-90 per cent) are sold on a credit basis, the smaller segment of second-hand cars will be impacted given the cash component involved in such transactions. About half the tractors and two-wheelers are sold on

a cash basis and, hence, these could witness lower demand in the short term, believe analysts.

In the medium- to long-term, though, this move will provide an edge to organised players as unorganised players might not be able to bear the brunt of cash-less business. Overall, most of these issues are likely to iron out in the medium term and only aid performance of India Inc.

"This (demonetisation move) could affect the economic activity in the near term but will be more than outweighed by positive impact on improved transparency and tax compliance in the medium term," says Chetan Ahya, Chief Asia Economist at Morgan Stanley. "We believe this move will help to reduce black money more systematically, and in the long term, improve the ease of doing business in India."

While bringing inflation under control, it will also give the Reserve Bank of India some more room for cutting rates. "The move can be marginally positive for fiscal (as some scramble to deposit cash into banks by declaring as income and paying necessary taxes) and external accounts (by reducing the demand for cash intensive imports such as gold)," says Pranjul Bhandari, chief economist - India at HSBC.

Despite having many positives such as rising tax to GDP, higher GDP growth, lower inflation, higher financial savings, this demonetisation move may not curb the root cause of black money. "This initiative addresses the 'stock' of black money but not necessarily the flow/fresh creation of black money unless some mechanism is built to track the movement of the new high-value





currency notes,” wrote leading brokerage CLSA in a note to investors. However, such a sudden and drastic step by the government might dissuade some – if not all sections of the society – from creating new black money reserves.

#### **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.

#### **Conclusion:**

The generation of additional deposits and credit, as a result of the SLR requirements can make more credit available to governments. Given the

FRBM (Fiscal Responsibility and Budget Management) limitations, the amount of borrowing that governments can take on may be limited and the additional supply can mean a decline in the interest rate that governments pay on their debt. This could be a positive spin-off for the governments. The collision of the shock in the medium term is a function of how much of the money will be replaced at the end of the replacement process and the extent to which currency in movement is extinguished. While it has been argued that the cash that would be extinguished would be “black money”

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## Economic consequences of demonetization of 500 and 1000 Rupee Notes

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**Abstract:** 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

**Key words:** demonetization, against corruption, smuggling, terrorism, espionage,

### Introduction

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. In this report 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 the funding for anti-social elements like smuggling, terrorism, espionage, etc.

### 2) 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.

### 3) 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 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.

#### 4) 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. 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).

#### 5) 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

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.

#### 6) 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.

#### 7) Effect on Banks

As directed by the Government, the 500 and 1000 Rupee notes which now cease to be legal tender are to be deposited or exchanged in banks (subject to certain limits). This will automatically lead to more amounts being deposited in Savings and Current Account of commercial banks. This in turn will enhance the liquidity position of the banks, which can be utilized further for lending purposes. However, to the extent that households have held on to these funds for emergency purposes, there would be withdrawals at the second stage.



**8) 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 should eventually lead to strengthening of such systems and the infrastructure required.

**CARE's View**

In spite of the initial hiccups and disruptions in the system, eventually this change will be well assimilated and will prove positive for the economy in the long run.

**Conclusion:** 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. Appendix: Guidelines by the Government as to what citizens could do post this decision  
Deposit old notes of RS. 500 or Rs. 1000 in bank or post office accounts from 10th November till 30th December, 2016 without any limit. There will be a limit on withdrawal and Rs. 10,000 per day and Rs. 20, 000 per week. This limit will be increased in the coming days. Exchange old notes of Rs. 500 or Rs. 1000 at any bank, head post office or sub post office while showing ID proof. The limit for this is Rs. 4000 upto 24th November.No restriction of any kind on non-cash payments by cheques, demand drafts, debit or credit cards and electronic

fund transfer. On 9th November and in some places on 10th November also ATMs will not work. In the first few days, there will be a limit of Rs.2000 per day per card. This will be raised toRs.4000 later

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## India's Demonetization "Shock Therapy" – Financial Repression: Issues and Intricacies

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**Abstract:** On November 8 the shock to the financial system was administered by Mr. Modi by demonetizing 500 and 1000 rupee notes. India is an overwhelmingly paper currency country: some 90% of the transactions are done with cash. India's cash-to-GDP ratio is 12% more than half of Indians still don't have a bank account and some 300 million have no government identification. The two scrapped denominations – 500 and 1,000 rupees – account for more than 86% of the value of cash in circulation. By this diktat the government effectively neutralized around 86 percent of the currency in India. The staggering implication for the informal sector in the Indian economy which employs close to 94% of the labour force was disastrous. The daily wage earners, farmers, small traders and small businessmen were left helpless clutching the dud 500 and 1000 rupee notes in their hands. Even the economist Lawrence Summers, author of the infamous World Bank Memo was driven to write... "Most free societies would rather let several criminals go free than convict an innocent man. In the same way, for the government to expropriate from even a few innocent victims who, for one reason or another, do not manage to convert their money is highly problematic...."

**Key words:** financial system, denomination, demonetization

### Introduction:

The RBI had its own Marie Antoinette moment a few days later in a press release of November 12, 2016. It said "public are encouraged to switch over to alternative modes of payment, such as pre-paid cards, RuPay/Credit/Debit cards, mobile banking, internet banking. All those for whom banking accounts under Jan Dhan Yojana are opened and cards are issued are urged to put them to use. Such usage will alleviate the pressure on the physical currency and also enhance the experience of living in the digital world." Economist Jayati Ghosh was aghast and wrote... "Statements like this make one wonder whether the RBI is

living only in the digital world. Surely the worthies in that institution have some idea of the conditions under which banking and money exchange occur for most Indians? For some families for whom getting a square meal was a luxury the mocking advice of the Modi government was if you don't have food eat plastic cards.

ATM machines became cashless and long queues formed outside banks to exchange the old notes for new ones. From this inane compliance ritual of standing in endless queues outside banks, heart wrenching stories emerged. A number of senior citizens died of exhaustion. Children and the elderly who were sick



died as they were refused admission to hospitals as they could not pay with old notes. Farmers could not buy seeds for the sowing season as they did not have the new currency to pay for it. For the first time in post independent India the financial system went into a lockdown mode.

**Shock Therapy:** The collective punishment on India's poor and the informal sector where millions eke out a miserable livelihood was severe as close to 50 percent of them do not have bank accounts and formal identification papers to open bank accounts. However this draconian measure was justified by the NDA government of Modi as a patriotic duty to eradicate the twin evils of black money and counterfeit currency used by terrorists.

Tall and ludicrous claims were made by the BJP ministers that terrorism was dealt a death blow by the surgical strike of knocking out 86% of the Indian currency. Critics of demonetisation were shouted down as unpatriotic with the passionate fervor of McCarthyism. Donning the mantle of a messianic prophet PM Modi exhorted the poorest of the poor to move towards a cashless society.

**Challenges:** Cutting beneath the masochistic hysteria of pain and national sacrifice whipped up by the propaganda machine of corporate media and the Modi government, one discerns fundamental flaws in the argument that demonetization eradicates black money and counterfeit currency. It is as absurd as arguing that to prevent bank robberies

one has to completely shut down the banks.

Firstly, all black money is not held as hoarded cash. At best it constitutes 6% of the black money. Bulk of it is spirited away in Tax free havens like Switzerland and Panama from there it is invested through mail box corporations in equity, real estate and bullion all over the world. It is a matter of utmost irony that a number of the celebrities who endorsed the demonetization scheme figure in the list of names of people who used the illegal offshore accounts in places like Panama.

“In an elaborate charade called transfer pricing, corporations with their army of accountants and lawyers create a maze of shell companies (i.e. companies which have no real business activity) in Tax Havens which have secrecy laws concealing the ownership and the source of the funds. The tax strategy is fairly simple: book the profits in shell companies located in tax havens having low or nil rates of tax and show reduced or better still zero earnings in countries which have higher rates of tax.”

Then there is another game called capital round tripping played by big corporate businesses which bring back their black money through bogus companies which have no real business. These funds are invested in the economy as Foreign Direct Investment. There have been no efforts by the Government to clamp down on these activities. At the Mahesh Buch Memorial Lecture at Bhopal on October 5, 2016 former Reserve Bank of India governor Y.V. Reddy said “there is a subsisting interest in influential policy



circles to keep a window for round tripping open..."

The Indian stock market is also rigged through the route called the Participatory note where the black money from Indian origin is parked in Mauritius in a shell company from which there is flow back of black money as investment in the stock market causing inflated share prices. It is no secret that demonetization is a wrong policy instrument to handle such sophisticated chicaneries. It is like slicing a loaf of bread with a hammer.

Secondly, the engines of black money are left intact especially election campaign contributions are often accepted in cash and unaccounted for. The BJP which is now on a moral crusade of eradicating black money has been guilty of accepting large sums of unaccounted money as campaign contributions. Moreover, bribes of government officials and the political class would continue unabated even after demonetization. There are already reports that government officials are taking bribes in freshly printed notes! It was reported in the state of Gujarat where Mr. Modi hails from government officials demanded bribes in freshly printed 2000 rupee notes.

And lastly, counterfeit notes circulating in the economy is estimated to be in the region of 400 crores out of a total of sixteen lakh crores. In percentage terms it amounts a mere 0.03% of the entire currency. A sensible policy practiced by most governments is to gradually phase out certain notes with certain serial numbers to lessen the dangers of

counterfeiting instead of firebombing the currency.

There is no gainsaying that by rendering 86% of the currency as paper trash and carpet bombing the informal sector dependant on cash, the demonetizing of currency can best be described as a quixotic venture. Or is it a dress rehearsal for something more ominous in the form of draconian capital controls preventing physical withdrawal of cash from banks? Is the lack of availability of currency on account of "poor planning" or a manufactured crisis for the Government to push its agenda for a war on cash?

Before we discuss this issue we have to take a snapshot of the Indian economy. Beneath the rosy headlines of robust GDP growth rates the fact remains that the growth is fueled by expansion of credit and not incomes from steady job growth which in a state of decline. The top corporate elites have borrowed heavily from public sector banks without any hope of paying off the debt. The public sector banks are groaning under the weight of corporate loans which may never be paid. The real estate sector of the economy is primed up with bank loans and credit expansion. The stimulus to the economy is through easy access to credit for consumer spending. Thus an illusion of prosperity is maintained on a mountain of credit.

#### **Crucial Issues:**

The crisis point in the Indian economy has reached as credit induced asset bubbles are in imminent danger of



imploding unless there is fresh induction of credit into the system. The Indian economy is in a danger of deflationary spiral and the credit Ponzi scheme has to be maintained through the expansion of demand of new credit money. But limit to credit expansion is hitting the proverbial road block as there are few lenders and few takers of credit as business confidence is low and the much lauded animal spirits is in short supply. As Nicole Foss observes

“Natural limits for both borrowing and lending threaten the capacity to prolong the credit boom any further, meaning that even if central authorities are prepared to pay almost any price to do so, it ceases to be possible to kick the can further down the road. Negative interest rates and the war on cash are symptoms of such a limit being reached. As confidence evaporates, so does liquidity. This is where we find ourselves at the moment — on the cusp of phase two of the credit crunch, sliding into the same unavoidable constellation of conditions we saw in 2008, but on a much larger scale.”

Given the scenario of deflationary spiral and a lull in the credit off take, the access to interest free money (bank deposits with zero rate of interest) and worse with negative rates of interest (where the bank deducts a fee or bank charges from the deposits made with the bank) become imperative policy push for the coterie of financial elites and their political friends in the government.

But the constraint to monetary expansion is the engendered tribe of savers and the hoards of cash lying dormant in lockers

or under the proverbial mattresses. On them the war on cash must be declared to achieve the big push for credit expansion. There must be a moral crusade against physical cash which is hoarded and not available for the orgy of borrowing and spending. To prise open the cash hoard there must be the shock of demonetization and laws against physical withdrawal of cash which ensures that the physical cash is corralled and sequestered in the banks for further credit expansion. The mirage of prosperity is maintained by kicking the can down the road.

However, to nail down the escape hatch for bank customers who may become uneasy with deposits not earning any interest or worse negative rate of interest and withdraw cash physically, it is necessary to put in place draconian capital controls which prevent withdrawals of cash and also prevent the messy spectacle of bank runs. Once locked in the bank account the depositors can get a surgical scalping to take care of the messy NPA's of banks caused by profligate lending to corporate elites. The entire class of savers such as senior citizens, deposit holders belonging to the lower middle class would be thrown under the bus.

The winners of the demonetization shock therapy would be the corporate elites who caused the debt crisis for the banks in the first place. For them the loans would be written off at the cost of bank customers. Following the dictum that every disaster offers a windfall they would appear once again as saviours after getting the licenses for starting digital banks or wallets. Here the shell shocked ordinary





people would invest their capital without returns whatsoever for the joy of walking cashless in the digital space. It is de rigueur that animal spirits should be rewarded handsomely in the business friendly environment of NDA government.

The demonetization of the currency has also a shock and awe element to it: the shock of losing real money and the awe of being herded in digital pen. Cash carries a bad odour. Are you using cash because you are engaged in drug trafficking or are you a terrorist wanting to buy arms and explosives? Should you be flagged for suspicious activities for questioning by the national security state?

**Conclusion:** A part from the searing stigma that cash is associated with criminality, there is immense pressure on the denizens of the informal sector to tread the virtuous path to digital- "you pay- we play" pens like Paytm. Also comfortingly called digital wallets they offer bleating sheep solace and comfort from the ordeal of cash transactions. Once secure in the pay pen the sheep can be burdened with transaction costs which swells the profits of the digital banks and also the ubiquitous service tax can be imposed by the government which swells the coffers of a state hostile to social spending. To sum up:

1. Every financial transaction can be taxed
2. Every financial transaction can be charged a fee
3. Bank runs are eliminated

In this digital pen we shall serve with docility and endure "the stifling hygiene of the digital panoptic on being constructed to serve the needs of profit-

maximising, cost-minimising, customer-monitoring, control-seeking, behaviour-predicting commercial bureaucrats" and tax officials.

**Don Quijones at the website "Raging Bullshit" is more blunt when he says...**

" The reality is a whole lot darker. The war on cash is being waged for the exclusive benefit of those who already wield an inordinate amount of power and control over the economy and the people that are struggling in it. And they want more. By slowly, quietly killing cash, they seek to seize the last remaining thing that offers people a small semblance of privacy, anonymity, and personal freedom in their increasingly controlled and surveyed lives. And the way things are going, they'll get it..."

Imprisoned within the narrow confines of this digital panoptic on from which there is no exit, we will lose our freedom over our money. We will no longer have the choice of withdrawing cash from banks plagued with bad debts or withdrawing from irrational credit orgies as the risk of losing our money is too high.

Facing the signs of no cash and no exit we shall be agitated at the first signs of Financial Meltdown but we shall be pacified by the handlers of the pen. We will be reminded of our patriotic duty to the state to pay taxes. Ultimately calm will return.

After all the handlers imbued with the wisdom of Jean Baptiste Colbert the French finance minister to King Louis XIV know, "The art of taxation consists



in so plucking the goose as to obtain the largest amount of feathers with the least possible amount of hissing.”

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## Demonetization in India

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**Abstract:** 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. 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.

**Key words:** demonetization, new currency unit, money supply

### Introduction

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. There is virtually no visible opposition to the enforced ban, for any politician who opposes the ban risks having his own misdeeds — and they are all corrupt — brought to the public space by MODI. A true demagogue, MODI, has already convinced the gullible, salaried middle class that anyone who opposes the ban is hiding corrupt money and is anti-national. Alarmed by the drastic fall in trade, commerce and business activities by around 75 percent post-demonetization, traders in Maharashtra have demanded various types of concessions to help tide over losses since the Rs 500 and Rs 1,000 notes were demonetized on November 8 in an ostensible bid to control black money and weed out fake currencies. A huge wail of distress is being heard from small and

medium business enterprises across India that has been hit hard by the demonetization of high-value notes.

A similar situation prevails with the world-renowned. "Our trade has seen a sharp decline of almost 60-70 per cent as our quilts were bought mainly by tourists — and now they do not have cash," said a quilt trader in the city. Common people are ready to stand in long queues for the growth of our country and to curb the black money

When we run out of cash, forcibly it drives us to pay through our credit/debit cards. When usage of cards increases; cash exchanges reduces further. It founds to be true, When a reputed E-Commerce giant records unprecedented growth in retail transactions following demonetization.

**Parallel Black Economy:** This is the most obvious one. India has a huge parallel black economy which the government



can't tax and which forms an island away from the main economy.

Nobody knows the exact figure but it has been estimated to be in the range tens of thousands of CRORES of Rupees in the past to LAKHS CRORES today. You can be sure that a good chunk of this will come into the main economy.

**Make the corrupt lose their money:** Well this is for the first time that the corrupt are losing their money in large numbers. Huge sacks of money are being burnt, thrown or caught. Some of it is also percolating down as commission for the poor who are converting the old money into new, so it's an unexpected benefit for them too. You may remember that earlier also the recent tax amnesty scheme yielded tens of thousands of CRORE Rupees. The hoarders of black money will always be wary in the future.

An elevation of uncertainty is always a negative for equity markets. As such, markets have reacted negatively to this latest news though part of this may be attributed to the US election results. Markets will recover in the medium-term as the uncertainty eases out. While there exists a possibility of a broad based decline, there will be some sectors (with linkages to the unorganised economy) that would feel the brunt while some niche technology sectors related to fin-tech and e-commerce could gain. The long-term outlook remains positive.

**Objectives:** Counterfeit Currency: 500 And 1000rs Note Constitute 80% Of The

**Money In Circulation So This Will Take Most Of The Money Out Hence Will Impact Badly The Terrorist Organization.**

**Funding:** Funding For Arms, Smuggling, Terrorism Will Take A Blow Since All The Money Will Get Back To Bank And From There It Is Easy To Check And The Fake Currency Will Be Discounted.

**Security Features:** Features Like " See Through Register", "Latent Image With Denominational Numeral" Will Made It Hard To Fake Currency. So It Will Impact The Money That Was Coming Through Bangladesh , Nepal Etc For Funding Terrorist Activities In J&K.

**Parallel Economy:** Black Money Transactions Would Have Negative Affects As Now They Had To Go Back To Bank For Exchange Of Notes.

**Misc:** Other Sectors Like Drug Trafficking, Illegal Trade And The Money Use In It, Funding Of Election And Involvement Of Various Terrorist Groups Will Be Effected Badly. The Money Stored By Terrorist In Big Currency Has Become A Piece Of Paper Now. So Monetization Comes With Immense Benefit But Should Also Consider About Informal Sector Where Most Of The Payment Is In Cash Only. Hence We Can Say The Move Is Good But Utilitarian Principle Would Have Made It Further Better.



**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. 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 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. 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).

### 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



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.

### 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 Banks

As directed by the Government, the 500 and 1000 Rupee notes which now cease to be legal tender are to be deposited or exchanged in banks (subject to certain limits). This will automatically lead to more amounts being deposited in Savings and Current Account of commercial banks. This in turn will enhance the liquidity position of the banks, which can be utilized further for lending purposes. However, to the extent that households have held on to these funds for emergency purposes, there would be withdrawals at the second stage.

### Advantages of Demonetization

✓ 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.

✓ 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.

### Disadvantages of Demonetization

✓ 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.

✓ 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.

✓ 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 idea of demonetization is good but it has to be taken into consideration that most of the black money is kept in the form of land, buildings or gold or kept abroad. What is in cash constitutes only 4% of the total amount of black money on which taxes are not being paid. Out of this, a lot of money is in circulation in everyday transaction like if someone is building a house; the bill is not paid through banks for sand, bricks etc. This money goes into the other systems though it has been drawn from bank. These things will come under control with this step.

Small farmers, sellers, merchants, daily wage labourers and traders are suffering because of lack of proper planning, intelligence and foresight such as recalibration of ATM machines. There was need to pile up enough 100 Rupee notes and other smaller denomination notes in the market before taking this step. It is being said by critics that this step was taken only to bolster the image of the Prime Minister as he has been unable to deliver on GDP growth, inflation and bringing the black money from abroad.

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## Making India a cashless economy

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**Abstract:** The government is working at various levels to reduce the dependence on cash. Even as ordinary citizens queue up for cash and economists are busy estimating the extent to which economic growth will be hit because of the ongoing drive to replace high-value banknotes, there has been a lot of discussion on whether the government can use the current situation to push India towards a cashless future. The government will have to create conditions—not necessarily by creating cash shortages—to push cashless transactions to a threshold level after which the network effect will take over. India may not become a cashless economy in the foreseeable future, but it needs to reduce its unusually high dependence on cash to bring in much needed transparency and efficiency in the system.

**Key words:** cashless transactions, *Cost of Cash*, Making India

### Introduction:

The government is working at various levels to reduce the dependence on cash. Even as ordinary citizens queue up for cash and economists are busy estimating the extent to which economic growth will be hit because of the ongoing drive to replace high-value banknotes, there has been a lot of discussion on whether the government can use the current situation to push India towards a cashless future. In his radio address on Sunday, Prime Minister Narendra Modi once again pitched for creating a cashless society.

### Government pushes for cash less transitions:

Reducing Indian economy's dependence on cash is desirable for a variety of reasons. India has one of the highest cash to gross domestic product ratios in the world, and lubricating economic activity with paper has costs.

According to a 2014 study by Tufts University, *The Cost of Cash In India*, cash operations cost the Reserve Bank of India (RBI) and commercial banks about Rs21,000 crore annually. Also, a shift away from cash will make it more difficult for tax evaders to hide their income, a substantial benefit in a country that is fiscally constrained.

To be sure, the government on its part is working at various levels to reduce the dependence on cash. Opening bank accounts for the unbanked under the and adoption of direct benefit transfer is part of the overall idea to reduce usage of cash and increase transparency.

RBI has also issued licences to open new-age small finance banks and payments banks which are expected to give a push to financial inclusion and bring innovative banking solutions. Things are also falling in place in terms





of technology for India. The recently launched Unified Payments Interface by National Payments Corporation of India makes digital transactions as simple as sending a text message.

So, will the exercise to exchange currency notes and the ongoing currency crunch be a decisive factor in making India a truly cashless economy? Nandan Nilekani, in an interview to this newspaper, termed this as "a defining point in India moving to cashless". Shortage of cash has significantly increased the use of digital modes of payment, but the actual shift will only be visible after the cash crunch eases. It is possible that a section of people which has used electronic mode of payment for the first time due to the cash crunch will continue to transact through this medium, but there are still a number of hurdles in making India a cashless economy.

First, a large part of the population is still outside the banking net and not in a position to reduce its dependence on cash. According to a 2015 report by PricewaterhouseCoopers, India's unbanked population was at 233 million. Even for people with access to banking, the ability to use their debit or credit card is limited because there are only about 1.46 million points of sale which accept payments through cards.

Second, about 90% of the workforce, which produces nearly half of the output in the country, works in the unorganized sector. It will not be easy for the informal sector to become cashless, and this part of the economy is likely to be affected the most because of the

ongoing currency swap. Third, there is a general preference for cash transactions in India. Merchants prefer not to keep records in order to avoid paying taxes and buyers find cash payments more convenient. Although cashless transactions have gone up in recent times, a meaningful transition will depend on a number of things such as awareness, technological developments and government intervention. For instance, mobile wallets have seen notable traction, and it is possible that a large number of Indians will move straight from cash to mobile wallets. A study by Boston Consulting Group and Google in July noted that wallet users have already surpassed the number of mobile banking users and are three times the number of credit card users.

However, as noted above, a material transition to a cashless economy will depend on a number of factors. First, the availability and quality of telecom network will play an important role. Presently, people face difficulties in making electronic payments even in metro cities because of poor network. Second, as one of the biggest beneficiaries of this transition, banks and related service providers will have to constantly invest in technology in order to improve security and ease of transaction. People will only shift when it's easier, certain and safe to make cashless transactions. Third, the government will also need to play its part. It will have to find ways to incentivize cashless transactions and discourage cash payments. Implementation of the goods and services tax, for example, should encourage businesses to go cashless. Government should also use this opportunity to



revamp the tax administration, as more than taxes, small businesses fear tax inspectors.

**Conclusions:**

The government will have to create conditions—not necessarily by creating cash shortages—to push cashless transactions to a threshold level after which the network effect will take over. India may not become a cashless economy in the foreseeable future, but it needs to reduce its unusually high dependence on cash to bring in much needed transparency and efficiency in the system.

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## Anil Bokil, Chanakya for the proposed new monetary policy

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**Abstract:** The day when currency compression is completed and `50 is the highest denomination in force, all currency money can be assumed to have come back into the system," Thereafter, all bank transactions would yield 'bank transaction tax' and the government would receive revenue in continuously. The effects of these steps would need to be carefully monitored and fine-tuning action would have to be taken as and where required, Bokil warns. Tools of monetary governance would have to be judiciously used to ensure inflation is kept under control.

**Key words:** inspiration, achievement, currency compression

### Introduction

The son of retired teachers from Latur city in Marathawada region, infamous for hundreds of distressed farmers' suicides, Bokil comes across as a fully possessed man on his mission. He lives on Rs. 3,500 he gets from his 80-year-old retired teacher-mother, who lives with her husband in Latur. He is a *sanyasi* of sorts, as he has renounced the world, shut his bank account, lives on the goodwill of people and has devoted his life for a new economic order in the country, with a band of about 25 dedicated, like-minded people he won over during the last 16 years. He says he is rich with the goodwill of the people towards his mission. He owns nothing.

### His inspiration and achievement:

The turning point in Bokil's life came in 1995 when a group of 86 carpenters, welders, blacksmiths, electricians, etc. who wanted to venture into business, were refused credit by a bank in Aurangabad, Maharashtra. Bokil, who at that time was manufacturing import-substitutes for the processing and manufacturing industry, learnt of their plight, studied their case, and prepared

and presented their project report to the local cooperative bank.

"It gave credit in the Rs. 50,000 to Rs. 2 lakh range," Bokil says. Within two years, state-owned Bank of Maharashtra and Bank of Hyderabad also lent funds, from which Bokil purchased a 2-acre plot from Maharashtra Industrial Development Corporation in Aurangabad and set up an industrial cluster model. In five years, it became so successful that Bangladeshi Muhammad Yunus, a social entrepreneur and banker — and recipient of the Nobel Peace Prize for founding the Grameen Bank and pioneering micro-credit and micro-finance — wanted to replicate it in his country. "A young entrepreneur, who set up a foundry unit there today owns a BMW, not a small achievement," Bokil points out.

### Looking for solutions through Artha Kranti :

Since 1995, Bokil met many economists and chartered accountants to understand why everyone doesn't have access to banks, why they cannot get loans or why capital is so expensive. After a deep study with a few like-minded people from Aurangabad and Pune, he



came up with the ArthaKranti strategy in 1999 and invited people to join him. The mission of ArthaKranti Prathisthan, a registered trust, is "an economic revolution: a way towards Principled, Prosperous and Peaceful living".

Its core five-pronged strategy to be implemented in toto without any fundamental changes or dilution is:

1. Withdrawal of existing taxation system completely except for customs/import duties. That is, all central, state and local government taxes — direct and indirect.
2. Every transaction routed through a bank will attract certain deduction in appropriate percentage as Transaction Tax, i.e. single point tax deducted at source (say two per cent). This deduction is to be effected on receiving or credit accounts only, the deducted amount is to be credited to different government level like central, state and local (say, 0.7, 0.6 and 0.35 per cent respectively), the transacting bank will also have a share (say 0.35 per cent) in the deducted amount as the bank has a key role to perform.
3. Withdrawal of high denomination currency.
4. Cash transaction will not attract any transaction tax.
5. Government should make legal provisions to restrict cash transaction up to a certain limit, say Rs. 2,000. This means, cash transactions above this limit will not enjoy any legal protection.

**Expected outcome of the mission's proposal** : Bokil says that on implementing his proposal, abolition of the existing tax system would have to be done from a single predetermined date. Simultaneously, the deducting bank transaction tax from all transactions would commence.

"Currency notes of denomination higher than Rs. 50 will be phased out in a time-bound manner. All this money will attract the standard deduction of bank transaction tax and the balance will be treated as legitimate wealth," Bokil says, adding that regulations governing cash transactions would also come into force.

"The magnitude and time of revenue generation by this system needs to be anticipated," pointing out that initially there would be huge deposits of cash of high denomination into banks, and there would be huge inflows of revenue throughout the phase of currency compression. "The day when currency compression is completed and ₹50 is the highest denomination in force, all currency money can be assumed to have come back into the system," Thereafter, all bank transactions would yield 'bank transaction tax' and the government would receive revenue in continuously. The effects of these steps would need to be carefully monitored and fine-tuning action would have to be taken as and where required, Bokil warns. Tools of monetary governance would have to be judiciously used to ensure inflation is kept under control.



**Bokil's views on demonetisation :** "We neither welcome nor reject Modi's scrapping of the Rs 500 and Rs 1,000 notes on November 8 from our system," Bokil says dispassionately. "The Prime Minister has taken just a part of our five-point programme to establish a 'taxless and less-cash economy'. But the manner of execution is different from his NGO. "We want solutions for the economic system of the country, and not a punishment," adding that he accepts the present demonetisation move in a positive spirit as a responsible citizen. "The Prime Minister has started the process, we are now expecting the rest of our programme to be adopted," says Bokil.

#### **Conclusion:**

Honourable Prime Minister Narendra Modi is determined to implement the fine tuned version of Artha Kranti mission. One should pray Almighty to give enough strength to the spirit of Modiji to take the banking services to the unreached, thereby ensuring economic enrichment of the Indian rural masses.

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## Present Status of Black Money in India and the Future Challenges

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**Abstract:** There are many reasons behind it but the basic reason is the "Use of black money" to a large extent in our country. In Ancient times, the ways to generate money as well as its usage was very transparent i.e. everyone knew the sources of money and its application, which may be referred as white money. So, in the past, White Money was in use but now the colour of Indian money has changed to Black. Before discussing the use of Black Money one must know what Black Money is.

**Key words:** Indian money, White Money, Black Money

### Introduction

*"Black Money is so much a part of our white economy, a tumour in the centre of the brain - try to remove it and you kill the patient." — RohintonMistry*

We know that in Ancient times our country, India, was popularly known as „Golden Bird“ because people of our country were more civilized in terms of co-ordination and co-operation, worked in a very enthusiastic & honest manner so as to provide fruits of their work to everyone without any selfishness and/or jealousy i.e. they were not concerned about their earnings as compared to others. They focused on the welfare of the nation as a whole. So it could be predicted at that time that our country will become one of the greatest economies in the world and be at the top as regards

developed country very soon, but sadly it didn't happen. There are many reasons behind it but the basic reason is the "Use of black money" to a large extent in our country. In Ancient times, the ways to generate money as well as its usage was very transparent i.e. everyone knew the sources of money and its application, which may be referred as white money. So, in the past, White Money was in use but now the colour of Indian money has changed to Black. Before discussing the use of Black Money one must know what Black Money is.

### Review of Literature

SukantaSarkar (2010) conducted a study on the parallel economy in India: Causes, impacts & government initiatives in which he focused on the existence of causes and impacts of Black Money in



India. According to him, the main reason behind the generation of Black Money is the Indian Political System i.e Indian govt. just focused on making committees rather than to implement it. So, he concluded that laws should be implemented properly to control Black Money in our economy.

CA Lalit Mohan Agarwal (2012) edited the White Paper on Black Money studied that violation of laws by central and state govt. leads to criminal activities which in turn leads to generation of Black Money in Indian economy.

Arpit Guru and Shruti Kahani (2010) researched on Is Black Money an income? Need for amendment in DTAA & ITEA analysed that Black Money is spread everywhere in India up to a large extent which continuously stashed towards abroad in a very large amount. They also studied how Black Money had caused menaces in our economy and in what ways it is used.

Vijay Kumar Singh presented a paper on controlling money laundering in India - problems & perspectives. To control Black Money in India is a very difficult task mainly due to the poor implementation of laws which lead to sophisticated crime in the economy and thus generates black money.

### What is Black Money?

We know that in the present times, Black Money is used in our

country up to a large extent it is not possible for us to define it in a very clear terms. Different people defines it in different ways with different terms such as unaccounted income, black income, black wealth, underground wealth, or at economy level it is known as black economy, parallel economy, shadow economy, and unofficial economy. Therefore, all in all these terms usually refer to an income on which the taxes are imposed by government but have not been paid.

Black Money refers to that money which is not fully legitimate property of the owner. It is normally received in terms of cash from economic activities. i.e. Individuals who received it must hide it, spend it on for the fulfillment of their needs.

National Institute of Public Finance and Policy (NIPFP) defines - "Black Money is the aggregate of incomes which are taxable but not reported to authorities." Apart from this, the term Black Money would also include legal income that is concealed or hide from public authorities:

- To evade payment of taxes which includes - income tax, excise duty, sales tax, stamp duty, etc ;
- To evade payment of other governmental or statutory contributions;
- To evade compliance with the provisions of various industrial laws



which exists such as the Industrial Dispute Act 1947, Minimum Wages Act 1948, Payment of Bonus Act 1965,

Factories Act 1948;

□ To evade compliance with other laws and administrative procedures applicable in India.

### **Generation of Black Money :**

It is generated through twomain activities or means – Illegal means and Legal means

□ It is earned through Illegal means such as drug trafficking, weapons trading, terrorism, selling counterfeit or stolen goods etc.

□ By Corruption which includes bribe given to and by public officers.

□ Hiding income through Legal activities i.e. not reported to public authorities or we say to the govt.for the purpose to evade taxes.

□ Even commercial classes generate Black Money through Trade.

### **Black Money in India**

Almost every sector in our country generates and uses Black Money for its survival in the market, society....etc. It includes Real estate, financial market, bullion & jewellery market, non-profit organisations, external trade and so on.

Apart from this, in India Black Money persists due to the existence of Demonstration Effect i.e. the way to live a life in terms of others' point of view or we say to live a life by looking at others' livelihood. People of India are very much affected by the lifestyles of other people of the society who are maintaining considerable high status, and in turn want to be like them. For this, they want to generate money by any means. Therefore to fulfil these desires or to maintain their status in society they force themselves to generate and use black money.

Another reason for the existence of Black Money is the presence of Corruption in every field of the economy. For example,

1. If any common man wants to get a job in any public institution like a bank, or any transport or educational institution etc., then he will have to pay adequate consideration to the authority of that respective institution i.e. bribeshave to be paid. For this, common man is forced to generate money by illegal means. In this way, we can say that, both, the public authority and a common man generate and use Black Money in a considerable manner.

2. Likewise, if a student wants to get admission in any big and reputed institution, he will have to pay some



extra money other than fees in the form of Donations, etc

3. Also in some Educational institutions, more fees are charged for examination forms or for practicals which is considerably higher than the quoted fees. In this way, Black Money is generated and used in big and reputed educational institutions.

Another aspect of Black Money is very astonishing for society from which significant amount of Black Money is generated and used and that is the spirituality. The cases of Nirmal Baba RadheMaa, etc., are good examples.

Another sector which generates and uses significant proportion of Black Money is the Indian Political System.

The Leaders/Ministers of this system focus only on their personal growth instead of the economic development of the country. At the time of elections, they spend a significant amount of money to win or, as is said, to get a chair and after winning they just focus on earning large amounts of money by taking bribes, even for small activities. Such Black Money is either deposited in foreign banks like SWISS BANK or invested in Real-Estate in other countries like Dubai etc. According to 3rd report published in May, 2012

SWISS NATIONAL BANK estimates total deposits as below:

Country	Money Deposited
INDIA	\$ 1,456 billion
RUSSIA	\$ 470 billion
UK	\$ 390 billion
UKRAINE	\$ 100 billion
CHINA	\$ 96 billion

From the above analysis it is clear that India has a Top Position in the case of Black Money deposits.

Another aspect through which significant amount of black money is generated is by Manipulation of Accounts in which the accounts are manipulated to misrepresent the authorities which help to generate large amount to black money.

### Effects of Black Money

□ It leads to increase in inequalities of income which widens the gap between the rich and the poor people of our country.

□ It leads to wasteful consumption in our economy i.e. money which should be used for investment but wasted at consumption.





□ It leads to decrease in working efficiency of people as they get used to earn Black Money by easy means and they start preferring leisure to work.

### **Future Challenges of Black Money**

Above we have studied a comprehensive analysis of factors leading to generation of Black Money in our country. At the same time, it is not possible to curb, control and finally prevent the generation of Black Money in near future as well as repatriation of black money. It is possible only if a comprehensive mix of well-defined strategies and policies is pursued with patience and perseverance by the central and state government and put into practice in a very co-ordinated manner.

There are some challenges which might be faced by the government as explained below:-

### **To control criminal activities**

As we know, in country like India there are many illegal activities and crimes that lead to generation of significant amount of Black Money incomes. It includes counter fiet currency, drug trafficking etc. Each of them is a major source of unaccounted or black money.

### **Repatriation of Black Money stashed abroad:-**

We think it is the one of the biggest challenge of our government of

India to bring back money from abroad .However; it is a goal that cannot be achieved by government action alone as it requires co-ordination and co-operation of other countries as well as authorities to achieve this.

### **Special Investigation Teams:-**

In order to control and curb prevalence of Black Money in India, govt.has makes a team which is known as Special Investigation Teams to investigate on the issue of black money. So, at present in India, it works under the chairmanship of retired SC Judge B. P. Jeevan Reddy. But its success depends upon the team members of committee as it requires a significant effort to work on this issue.

So, government must take quick action in setting SITs, then potential Black Money holder will definitely reduce. It is big challenge in front of government to properly implement the special SIT which helps to bring back stashed Black Money in the country.

### **Less formation of Committees:**

We think this is one of the biggest challenges which are going to be faced by Indian govt. to form fewer committees. i.e. Ministers in Indian Political System are just focussing on setting up new committees evenfor a very small issue in order to rot the issues i.e. our politicians only know how to delay the process of action and





thereafter, making lame excuses rather than providing solutions for a problem i.e. Corruption and black money.

### **Reduction in the Cost of Compliance and**

#### **Administration:**

As we know that the transaction cost associated with compliance and Administration is one of the major disincentives for generation of Black Money in a very large amount. It includes cost of compliance, administration, maintenance of books of accounts etc. which is being borne by the citizens of our country, or we say tax payers who are in turn compelled to evade taxes. In this way Black Money is being generated in our country. Therefore it must be reduced which again proves to be a challenge for the Government of our economy.

#### **To control corruption:**

As all know that there is only one major reason behind the generation of Black Money, and that is – corruption. It is perceived as one of the biggest challenges faced by our country which is almost impossible to counter. As we study above all the factor that leads to generation of Black Money are directly related to corruption. So to control Black Money. It is essential to curb and control corruption which requires multipronged strategies with assigned the responsibility to prevent it.

#### **To Strengthen the Social Values:**

We think to control the generation of Black Money in our economy requires a combined effort by all citizens of a country. Or, it needs to be fought by every citizen at various levels which includes Political, Economical and administrative levels etc. At ethical level, we have to reinforce our moral education in the school curriculum particularly highlighting the ills of Black Money which in turns leads to tax evasion. At economic level, there must be a reduction in wasteful consumption or expenditure, and to encourage savings, frugality and simplicity which in turn reduces the gap between the rich and the poor.

So, to strengthen the value system of our country at individual level is proving to be a challenge for an economy.

#### **Recommendations & Suggestions**

After studying the concept of Black Money & its various sources of generation in our country, it's time for some Recommendations & Suggestions that may help to control Black Money in India. These are as follows:

- Our Government should make its foremost objective to control Black Money in our country.
- E-Governance should be started by the Government i.e. the use of



technology be made as far as possible like E-Registration with Revenue Authorities, E-Filing of Returns, etc. because more the involvement of human beings, more is involvement of corruption, ultimately generating Black Money.

□ Black Money revolves around in cash only so the Government should put restriction on cash transactions wherever possible and instead should increase the use of Plastic Money like Debit Cards, Credit Cards, etc. and by other such means.

Agriculture income should be taxed for those who have both the agricultural as well as non-agricultural income.

□ The Government should not give absolute power of work to any one person as it creates monopoly and instead should segregate the work among many persons.

□ All the aspects of its generation should be looked into and stopped.

□ Competitive bids should be motivated.

### Conclusion

This paper presents the different aspects of Black Money and its relationship with policy and administrative measures in our country. It also reflects the policy and strategies that the Government has been pursuing in the context of recent initiatives, or need to take up in the near future, in

order to address the issue of Black Money and corruption in public life.

There is no doubt that existence of Black Money has a significant impact on social, economic and political levels of our lives which has a significant effect on the institutions of governance and conduct of public policy in the country.

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## Pros & Cons of Demonetization of Big Currency Notes

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**Abstract:** 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. 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.

**Key words:** denomination, Global Corruption, gold and property

### Introduction

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 minimise 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.

### Reasons of Demonetization

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

to sponsor terror-this was proven many a times.

Corruption and black money are the major obstacles in our country. It is weakening the efforts to remove poverty. Our country is rapidly increasing in terms of growth and we are in No.1 position in terms of growth but we are ranked 76 in Global Corruption Perception ranking. It clearly shows how corruption and black money have spread their tentacles.

### 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 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.

#### **Conclusions**

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 that brought this decision.

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## Demonetization - 1978, the Present and the Aftermath: Policies and Challenges

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**Abstract:** India's previous experience with demonetisation was when the then President of India promulgated the High Denomination Bank Notes (Demonetisation) Ordinance on 16 January 1978, demonetizing the ₹1,000, ₹5,000 and ₹10,000 currency notes with the objective of eliminating "the possible use of such notes for financing illegal transactions" (RBI 1977-78: 77). At that time, demonetisation received limited public attention and had little impact on the daily lives of people. High denomination notes demonetised then formed just a minuscule fraction—about 0.6%—of the total currency in circulation. Further, the demonetised notes were of significantly high value, having little use for common people. The current situation is different; the demonetised ₹500 and ₹1,000 notes constitute over 85% of total notes in circulation by value.

**Key words:** currency, liberalization, Currency Holdings

### Introduction

Phenomenal changes have taken place in the economy during the past decade and a half. There has been considerable diversification in favour of services sector in total gross domestic product (GDP), which obviously absorbs higher amounts of currency. Liberal economic policies included sizeable reductions in marginal tax rates, impetus for trade, easing of controls on foreign direct investment, as also portfolio investment in share markets, liberalisation of commodity trading, and opening up of large numbers of organised retail outlets. All of these have created a liberal economic environment which has given impetus to people to hold large amounts of cash. Over time, due to persistence of inflation, the value of the rupee has also eroded.

### Currency Holdings since 2001-02:

The authorities responded by reintroducing high denomination notes for ease of trade and general economic activities. Until the introduction of ₹500 notes in October 1987 and reintroduction of ₹1,000 notes in November 2000, ₹50 and ₹100 notes had held sway. In 2000-01 about 65% of the notes in circulation were in the form of ₹50 and ₹100 notes and by 2015-16, their share dwindled to just about 10%. The ₹500 and ₹1,000 notes have increased in share: ₹500 notes from about 25% in 2000-01 to 47% in 2015-16, and ₹1,000 notes which were issued in 2000-01 grew to 38% in 2015-16. Thus, the two together accounted for as much as 86% of the total notes in circulation, which showed that transactions in India have been





preponderantly through these two denominations.

**Currency and GDP Growth:** A comparison of the growth of note issuances with other macroeconomic indicators such as growth rate of GDP at market price and the inflation rate produces interesting results. First, the rate of increase in high denomination notes outpaced the increase of total bank notes throughout the post-independence period. Second, the annual growth rates in total currency as well as those in high denomination notes have been much higher than the nominal GDP growth (which could be partly due to monetization). For instance, the annual average of high denomination notes growth during the eight-year period from 2005–06 to 2012–13 worked out to 22.2%, which has been much higher than the average annual GDP growth of 15.3% in nominal terms. Even the average growth of total currency issues at 15.8% has been somewhat higher than the average GDP growth. This was as per the 2004–05 series of GDP estimates. According to the 2011–12 GDP series, high denomination notes grew at 12.3% in 2012–13, which was 0.9 times of the GDP growth rate. By 2015–16, high denomination notes grew at 16.5%, surpassing the GDP growth rate of 8.7%, that is, 1.9 times higher. A similar trend is noticed when we compare growth of issue of bank notes to GDP growth rate. Increase in the issue of high denomination notes and total bank notes have taken place in spite of lower order of inflation rate during the last few years. Normally, the impetus for currency expansion comes from high inflation.

**High Cash and Demand Deposits:** Has the phenomenal rise in the issue of bank

notes, particularly high denomination notes, altered the behaviour of money supply in the economy? In India, both narrow (M1) and broad money (M3) concepts are used. M1 consists of currency with the public, demand deposits, and other deposits with the RBI, while M3 additionally includes time deposits. M1 has expanded during the last few years essentially due to sizeable increases in currency with the public, while demand deposits have grown at high rates in some years. M3 mostly comprises time deposits, a little over three-fourths, though a marginal reduction is seen during the last two years. Amongst the components of M1, currency with public is the primary one. Although the ratio of currency with public to M3 (also known as currency ratio) has been declining over the years, except in the last two years, demand deposits as a ratio has remained nearly the same. The percentage variation of M1 was higher than that of M3 in recent times due to sluggish growth in time deposits. In the overall expansion of M3, the share of M1 has doubled from 14.4% in 2013–14 to 28.8% in 2015–16, with simultaneous reduction in the share of time deposits. Within M1, the share of currency with the public has gone up from 9.3% to 19.2%, and demand deposits went up from 5.2% to 9.5% between 2013–14 and 2015–16. Thus, the bulk of increase in money supply (that is, liquidity generated) during these years is attributable to the huge rise in currency with the public and demand deposits.

It fell from 127.5% in 2013–14 to 123.4% in 2014–15 and then increased to 130.9% in 2015–16. It thus explains the persistence of relatively higher growth in bank notes and high denomination notes





in the last two years. We may attribute this to the public's propensity to treat money also as a store of value, apart from being a medium of exchange. What is more, these are years in which inflation rate was lower than earlier years and hence the public would have viewed minimum erosion in the value of money, which in turn would have increased their propensity to view currency as a store of value. That alone does not justify demonetisation unless such currency holdings are largely illegal or have large unaccounted sources.

#### **Expected Outcomes:**

Whether demonetisation this time will achieve its stated purpose can be understood only when more statistics become available. The extent of demonetised high denomination currency that finally fails to be exchanged for new notes or be deposited in banks will be an important indicator.

Economic consequences of the demonetisation measure have many dimensions. Short-term can be further divided into two parts: disruptions in the lives and day-to-day activities of people, and the shock leading to contractions in consumption, trading and household incomes. Savings are unlikely to be affected as currency holdings will be converted into bank deposits, though no doubt such actions will have medium-term implications, particularly on interest rates.

The tremors that demonetisation has sent across the economy were clearly visible in the course of last many days with trading activities crumbling. One may treat this as a shock. But this has to

be absorbed to prevent it from precipitating further crisis. The shock absorbers include stepping up private and public investment, and global demand for domestically produced goods.

The interest rates are expected to go down due to a surfeit of liquidity in the banking system with the public depositing high denomination notes and withdrawing only limited amounts. This is very unlikely to boost private investment as firms anyway would have excess capacity. Global demand cannot be expected to drive domestic production and employment as the global economy still trails. Demand for imported goods can go down due to depressed price situation and want of liquidity in the market. This can make the dollar cheaper (or rupee stronger) which will further weaken export competitiveness (unless of course the demand for the dollar increases due to other reasons).

Based on the prediction of money market equilibrium models, we know that any inward shift in the money supply curve (which demonetisation can easily do) will put pressure on the interest rate, if there is no discernible shift in the money demand curve. Due to the inconvenience caused and for want of currency for transaction purposes, the money demand curve could shift downward, thus leaving interest rates unaffected, but having adverse effects on the level of output. In other words, withdrawal of high denomination notes will certainly have a short-term impact on market transactions and hence output level in the economy. That is, aggregate demand in the economy gets adversely impacted in the short run, which perforce implies that the price level in the economy would



go down in the next few months (if revelation is not a public policy choice). If aggregate demand falls due to reduction in money supply with a simultaneous fall in prices, inventories will build up, which firms may not want due to the opportunity costs involved, and this can eventually impact production. Adjustments in outsourcing firms, and small and medium enterprises would be exposed to a higher order of demand risk affecting employment in that segment. Thus, the short-term impact could have far-reaching consequences.

### Public Policy and Public Pain:

Studies on corruption practices in India have shown that the system of bribes, underhand dealings and use of dubious means to get things done, are rampant. These practices, it cannot be denied, are all pervasive. The abundant supply of ₹2,000 notes, a poorly thought-out move, will gravitate towards those interested in unaccounted transactions, once again encouraging illegal transactions.

The malaise of unaccounted transaction ought to have been addressed at its root, that is, by closely examining high value transactions to uncover their sources of financing; for instance by raiding real estate and jeweler sector operators. It is not for nothing that a study by the World Bank staff has placed India at the top of emerging market economies as moving the highest share of shadow economy in total GDP (22.2%) as compared with China's 12.7% and Japan's 11%.<sup>6</sup> Further, there is a need to monitor conspicuously high levels of expenditure in India and even abroad, on marriages and other such extravaganzas. Besides, if any administration is sincere about

attacking the phenomenon of unaccounted money, it has to strictly regulate political party funding. When all these fairly straightforward alternatives exist, the government machinery did not have to inflict such hardships on the public.

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1 This is evident from the fact that total currencies with banks and government treasuries were worth above ₹96,080 crore, while the high denomination notes in circulation alone in March 2016 were of the order of ₹14,17,940 crore. Total non-public holdings of all currencies were then only 6.4% of high denomination currencies in circulation.

2. The RBI's publications including relevant RBI history volume (RBI 2005: 450–53) make no reference to the treatment of those high denomination currency notes not tendered then for exchange. A sense that we get after a careful scrutiny of RBI's Annual Reports for 1978–79 and 1979–80, and Report on Currency and Finance 1977–78, 1978–79, 1979–80 and 1980–81, is that, under the demonetisation of 1978, those notes which were not tendered for exchange were very likely not extinguished from RBI's balance sheet and continued to remain with the public as "notes in circulation" (public including banks and government treasuries).

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## The Impact of Demonetization on Trade and Commerce

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**Abstract:** The proposal by the government involves the elimination of 500 and 1000 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 since there are limits placed on the amount that individuals can withdraw. In the months to come, this squeeze 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”. There are potentially two ways in which the pre-demonetisation money supply will stand altered in the new regime: one, there would be agents in the economy who are holding cash which they cannot explain and hence they cannot deposit in the banking system. This part of the currency will be extinguished since it would not be replaced in any manner. Second, the government might choose to replace only a part of the currency which was in circulation as cash. In the other words, the rest would be available only as electronic money. This could be a mechanism used to force a transition to cashless medium of exchange.

**Key words:** demonetization, Inflation, national security

### 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 8th of November 2016. People have been given upto December 30, 2016 to exchange the notes held by them.<sup>1</sup>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 since there are limits placed on the amount that

individuals can withdraw. In the months to come, this squeeze 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”.

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 this assumption is 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 substantial.

The second change as 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 a 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 Internet banking."<sup>2</sup> 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.

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."

### **The Demonetisation and its impact on SME Sector**

How are small and medium enterprises coping with the fall out of demonetisation? Traditionally, these enterprises run on thin budgets and often suffer long delays in recovering dues for supplies already made. With a liquidity crunch all over the country, these enterprises are having a hard time. Industry insiders admit to some difficulty here and there, but nothing that they cannot tide over. Some of the small and micro units, used to paying workers in cash on a weekly basis, have felt the cash crunch. Though they have been crying hoarse about the tight money situation, workers did not openly attack the management for deferred payment. Industry representatives had initially issued statements stating that they would have to stop operations as withdrawal limits are small and they would therefore not be able to source material or pay off workers, particularly those on weekly basis. But most of these micro and small units are still operational. There seems to be no visible signs of industrial unrest due to nonpayment of wages. For industrialists though, life goes on like before. A small scale industrialist didn't disrupt his holiday plans despite the liquidity crunch. He said he had gone to Kerala for the weekend with his family and friends with just Rs. 150 in his wallet, a couple of the now invalid Rs. 500 and Rs. 1,000 notes, and plastic cards as well. "Gas stations accept these notes, we settled our hotel dues by swiping our card



and got back with the money in the wallet intact. If you ask, most people, even small shops accept cards in Kerala, and banks are giving Rs. 4,000 in exchange for these notes," he said. Meanwhile, bankers think some customers seem to be making good use of loopholes by walking into different banks with the photocopy of his/her identity card, and walking out with enough change.

### **Impact On Growth And Inflation**

One question that crops up is the impact on growth rate. Certainly, the temporary disruptions can have an adverse effect on growth if they continue to linger. Over the longer run, the beneficial effects are the spread of the organised financial system with more and more transactions being channelled through the digital mode. Also, if followed up by other measures, the generation of black money can come down. The immediate impact on prices will also be beneficial. To the extent that some part of the currency will get extinguished, it may have the same effect on inflation as reduction in money in circulation. This will happen only at the end of the period given for surrender of old currency. Even as people welcome the measure to demonetise, the major concern is the inconvenience because of the lack of adequate new currency. It also affects the livelihood of the poor. Small businesses, particularly, can face shortage of liquidity which can hurt them seriously. The Government, the RBI and banks must handle this problem on a war-footing; otherwise the generally welcome measure may turn sour.

### **The Demonetisation and its impact on e-commerce Industry**

The future of e-commerce is bright despite cash burn and losses incurred by e-commerce players amidst a drying up funding environment, as India is still an under penetrated market, said Sachin Bansal, Flipkart Co-founder and Executive Chairman, who was the first speaker at the third edition of the Global Mobile Internet Conference that opened in the city. Stating that e-commerce companies will have to continue to invest in talent, physical supply chain and logistics and in building systems and processes to support the inevitable growth of ecommerce in the country before focusing on becoming profitable, he foresees that "Only those companies that bet and invest in data and AI will survive in the next 10 years. Cash burn and cash crunch is a function of the stage of the market. The question we should be asking is when is the right time to stop burning cash and switch to profitability, which can be done anytime we want to." Asked whether he was afraid of the prospect of either being bought out or destroyed by American and Chinese firms like Amazon or Alibaba, Bansal said "absolutely not." Explaining that India is a very different market, he predicted that business models that are unable to get the masses of India on board and are just serving the elite who look much like Americans and European in their income levels and behaviour, will be bought out or will have to shut down, as already seen over the last 12 months. Businesses that are able to Indianise for Indian needs and aspirations and are able to solve local problems using local resources in a much more efficient way will survive. "If you want to beat NASA, don't replicate the NASA model, but be like ISRO which did the same things at much lower costs. My





strong belief in Indian management and entrepreneurial talent leads me to believe that there will be a large number of Indian companies, which will not only stand on their own but also will be buying their American counterparts and will take their model to other developing countries as it is the best suited model for other developing nations," he said. Bansal said digital payments is the largest bet in the mobile internet space from the technology point of view, becoming an enabler for a whole set of other businesses, whether it is selling cabs or mobile ads or any kind of transaction on the internet. To accelerate the use of digital payments, Bansal feels the government should subsidise low-cost \$100 smart phones and bring it down to \$50. don't replicate the NASA model, but be like ISRO which did the same things at much lower costs. My strong belief in Indian management and entrepreneurial talent leads me to believe that there will be a large number of Indian companies, which will not only stand on their own but also will be buying their American counterparts and will take their model to other developing countries as it is the best suited model for other developing nations," he said. Bansal said digital payments is the largest bet in the mobile internet space from the technology point of view, becoming an enabler for a whole set of other businesses, whether it is selling cabs or mobile ads or any kind of transaction on the internet. To accelerate the use of digital payments, Bansal feels the government should subsidise low-cost \$100 smart phones and bring it down to \$50.

### Conclusions

The demonetisation 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 activity in the economy and that is a cost that needs to be factored in while assessing the impact of the demonetisation on the economy and its agents.

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## A note on the advantages and disadvantages of demonetization

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**Abstract:** The withdrawal of Rs.500 and Rs.1000 notes is one of the boldest step taken by government of India in recent times. PM Modi took this decision, fully aware that the move can be detrimental for his political career and at first it occurred that the decision was taken in a moment This scheme is going to impact the businesses, the daily labour, and financial institutions all at some level or the other. The government is repeatedly assuring the citizens not to worry and 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 drafts, and electronic fund transfer."

**Keywords:** hardships to people, political career, GDP.

### Introduction

A lot has already been written, printed, spoken about demonetization of Rs.500 and Rs.1000 currency notes. People more knowledgeable than me have put forward their opinions here and I couldn't help but agree with the points made by them. The withdrawal of Rs.500 and Rs.1000 notes is one of the boldest steps taken by government of India in recent times. PM Modi took this decision, fully aware that the move can be detrimental for his political career and at first it occurred that the decision was taken in a moment. The scheme has received mixed reactions till now and as the conundrum subsided, people reacted to this decision with irresistible support. The opposition as well as some people is of the opinion that it is a draconian scheme that is causing extreme hardships to people. They argue that the implementation of the scheme is a complete mess and that it would've been better if two to three days notice had been given. But that would have defeated the entire purpose of the scheme

because by then the money would have been circulated.

This scheme is going to impact the businesses, the daily labour, and financial institutions all at some level or the other. The government is repeatedly assuring the citizens not to worry and 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 drafts, and electronic fund transfer."

### There will be a heavy adverse impact of demonetization in the following sectors:

- **Black money hoarders** - A recent study had pegged India's black market economy at over Rs 30 lakh crore or about 20 percent of total GDP. This is even bigger than the GDP of countries like Thailand and Argentina. The black money holders are now left with just two options – deposit the money in banks, declaring it to be their income or burn all of it. In first case, the question arises



that how did they earn that income? Their files would be subjected to scrutiny and a minimum tax of 60 percent (30 percent general tax rate with 100 percent penalty) would be payable on the declared amount if it is found to be undisclosed previous income. Even if they show this as income in the normal course of business, they will have to pay taxes on it as per current rate.

- **Fake note circuits** - Militants operating against India use fake notes of Rs 500 and Rs 1000 (total worth about \$7.50 at current exchange rates, source : Media Report). But have you ever thought about how these militants and terrorists get their money? Enemies from across the border run their operations using fake currency notes. Hence, the withdrawal of these currency notes is equivalent to carrying out a surgical strike on these people.

- **Illegal election fundings** - We all know how much black money is used by political parties. It will be a very tough task to use trucks of money at least for the upcoming five state elections.

- **Rural economy** - A very strong criticism of the scheme that came across is the possible draconian impact it can have on the rural economy. India reportedly has somewhere around 10 lakh bank branches all over India. However, there are 6.8 lakh villages alone and most of these villages are without a bank. Rural economy mostly thrives on currency transactions. Most of the population does not even have the slightest idea of banking. This is likely to come across as a huge shocker for such sections. Jan Dhan scheme, UPI/digital payment stack, and payment banks are still in the nascent stage. It will be a long time before rural India moves to

completely cashless transactions. In the short term, people in rural India who have a significant amount of Rs 500 and Rs 1000 notes, but no official form of identification, will have a tough time in exchanging their notes.

- **Agriculture** - Transactions in the Indian agriculture sector are heavily dependent on cash and is hugely affected by the demonetisation of Rs.500 and Rs.1000 banknotes. Many farmers have insufficient cash to purchase seeds, fertilizers and pesticides needed for the plantation of rabi crops.

- **The unorganized sector** - The poor do not have black money. They work hard to earn two squares of meal and do not have sufficient savings so as to deposit in any bank. They are the people who are most affected by this sudden decision. How do you expect people running grocery shops, street vendors, and maids to leave their businesses and stand in a queue to deposit these notes in the bank?

- **Transportation** - Major highway toll junctions on the Gujarat and Delhi-Mumbai highways also saw long queues as toll plaza operators refused the old banknotes. Nitin Gadkari, the Minister of Transport, subsequently announced a suspension of toll collections on all national highways across India until midnight of 11 November, later extended until 14 November and again until midnight of 18 November, and yet again till 2 December.

- **No big impact on foreign accounts** - The big fish will be left out whose black money is in the form of foreign currency, gold, and stashed away in Swiss/Panama Banks, offshore accounts, gold, and property, etc. How



the government plans to nab these offenders is yet to be seen.

*The demonetization is going to have a favourable impact on the following sectors:*

- **Surge in bank deposits** - Banks are expected to witness a spike in their deposits from people and businesses who have a lot of legally earned money. As per the new scheme, up to Rs 4,000 will be immediately exchanged by banks and the balance amount would be credited to the account holder. This will increase bank's deposits by a huge margin, increasing the lending activities.

- **Deflation** - Sectors like real estate, construction material, unorganized trade and services will see significant pain in the near term.

- **Jewellery and real estate business** - Gold demand will rise as people will have more faith in the gold than the currency notes, creating destabilization for a little while, but overall it is expected to benefit the industry. Unorganized builders and secondary (resale) property market would be adversely impacted following the government's decision. Housing prices could witness downward pressure, which in turn will revive demand in the sluggish housing segment.

- **On the way to cashless economy** - With limits on ATM withdrawals and bank accounts, it will drive the card payments across the country.

**Some practical difficulties that people will face:**

- The owners of the consumer perishable stock like vegetable vendors, local grocers, and milk and fruit sellers will face huge trouble. Do they let their stocks rot and refuse to accept the Rs 500 note?

- Medical care is also likely to suffer. As per the scheme, government hospitals would accept these notes. However, many of these government hospitals ask you to buy medicines from outside. How are those transactions to be settled? Also, over 80 percent of healthcare is through private hospitals and nursing homes. How do they provide for critical care and surgeries?

- How do tourists handle their transactions? Do tourists need to queue up outside banks, changing Rs 4,000 at a time whenever the banks get new currency stocks and open again?

- Not more than 10 percent of Indian population know 'how to operate an ATM'. Thus, there will be huge queues in the banks and people(including daily wage workers) will have to apply leave to stand in those long queues.

**But people have found ways to evade the decision:**

- Gold purchases
- Donations in religious institutions
- Multiple bank transactions
- Railway bookings
- Municipal and local taxes

**Conclusion**

The decision of the government has been taken for welfare of public and many people support the decision wholeheartedly. But there is no denying that the government has failed miserably in its implementation. The government



could have brought this decision a bit earlier. Had the implementation been better than what it is now, had the government kept enough Rs. 100 deposits to keep the cash economy rolling, the furore that the Opposition is creating (mainly over mismanagement) would not have been there. Overall, the decision to ban Rs. 500 and Rs. 1000 was taken with good intentions.

***The decision is right; the implementation is not.***

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## The Impact of Demonetization on Indian Real Estate Sector

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**Abstract:** Demonetization means the process of removing a currency from general usage; or circulation. In the same way gold was demonetized when it ceased to be used as a daily 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 it is replaced with a new currency unit. The current issue in India is Demonetization. It is one of the boldest initiatives taken by Government of India in the history of Indian economy to ban high value currency notes of Rs. 1,000 and Rs. 500 with effect from November 8, 2016. It has received mixed reaction till now as some of the sections are telling that it can cause hardship for common people while some sections reacted to this decision with overwhelming support. This initiative is going to influence the business, common people, and financial institutions along with multi-diverse industrial background of India. This is the third demonetization exercise undertaken by the Indian authorities. The objective of this paper is to study the Impact of Demonetization on Real Estate Sector.

**Keywords:** Demonetization, Real Estate Sector, Currency, Indian Economy, Business, Financial Institutions, Primary and Secondary Market.

### Introduction:

India has a thriving cash economy. A majority of businesses in India run on cash with no transparency of the country. It is a 'leakage' from the economic cycle adversely impacting the working of the Indian economy. According to reports, two thirds of India's GDP is cash economy – around Rs 90 lakh crores.

The law abiding tax paying citizens of the country subsidize the ones dealing in black money. With a large amount of unaccounted money in the economy, the government is unable to collect enough tax revenues. This forces them to increase taxes. This in turn impacts the honest taxpaying citizens

rather than the ones dealing in black money. They remain unaffected. The cash economy is responsible for the existence of rampant corruption. Money just runs the system with no accountability. With demonetization, it is not necessary that corruption will be weeded out of the system, but it will definitely enable the system to capture the flow of money.

In India, demonetization occurred one-and-a-half years before independence in 1946 and again in 1978. A step like this can result in the cleaning up of a system for which many believed it could not be done. However, the decision by Prime Minister Modi is one of the most historic steps in Independent India. A decision like this can help curb



inflation, recapitalize banks, reducing the interest rates and making the economy vibrant, with capital inflows. The taxes will be spread to a much larger population. At present only 2.6 per cent of the Indian population pays taxes. Some just don't make enough and the others who do, siphon off the money. If this plan works, the ramifications of the currency demonetization can touch all parts of the Indian economy. Inflated property prices will be the first one to get affected by this clamp down of black economy. There were properties that were selling at a ratio of 90 per cent black money and 10 per cent white.

#### **Objectives of the study:**

The objective of the study is to analyse the Impact of Demonetization on Real Estate Sector.

#### **The Impact of Demonetization on Real Estate Sector:**

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. 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.

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. 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. There might be an impact on quite a few projects in tier 2 or 3 cities where cash has played a major role even in primary residential sales. The secondary or resale market will, however, certainly be impacted, given the fact that this segment does see the involvement of cash component.

The following are the major points at how real estate segments will fare:

➤ **Residential real estate:** The primary sales segment is largely influenced by home finance players, and these deals tend to be facilitated in a transparent manner. This segment will, therefore, see at best a limited impact in the large cities, though some tier II and tier III cities, where cash components have been a factor even in primary sales, will see a business crunch. The secondary or resale market will, however, certainly get impacted, given the fact that this segment does see the involvement of cash component.

➤ **Real estate investment markets:** Projects could get stretched as informal sources of capital may not be available. This, in fact, spells more opportunities for institutional capital. FDI, private equity and debt players will suddenly find the market even more transparent and attractive. Moreover banks could start funding land transactions, thereby decelerating land prices.

➤ **Retail real estate:** Retailers could see some impact on their business in the short-to-medium term due to reduced cash transactions. The luxury segment is likely to be hit because of the historically



high incidence of black money acceptance in this segment. However, credit/debit cards and e-Wallets should come to the rescue. Overall, the domestic consumption story remains intact, with no threat to the overall strength and growth of the Indian retail industry.

➤ **Commercial real estate:** There will be a minimum impact on office/industrial leasing and transactions business, given that cash components do not play a significant role in such transactions.

➤ **Land sales and leasing:** Where land transactions have been happening in the realm of joint ventures, joint development or facilitating corporate investments, will see very little impact of the demonetization move. This is because Joint Ventures, JDs and corporate investments are all quite institutionalized, with little or no cash involvement.

➤ **Developers:** There will be minimal impact on large institutionalized players with a solid brand and governance framework. Sales largely driven by the salaried class or investors with limited cash involvement would not suffer. Smaller developers are understandably very concerned right now because many of them have depended on cash transactions. We are very likely to see a clean-up of non-serious players due to this 'surgical strike' on the parallel economy. The impact of RERA will further discipline the industry, which will be good for its health in the long term. Hotels and hospitality-related real estate in the organized sector will see a very negligible impact by the demonetization.

**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.

#### **Conclusion:**

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 reduce 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.





Real estate sector can be categorized into 3 types namely tier 1 cities, tier 2 cities and tier 3 cities. By the demonetization scheme both tier 2 and tier 3 cities will be definitely affected. Whereas in property type, the office/commercial property very less affected, new property will be definitely affected, and resale property will be badly affected.

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## Demonetization and effects on Various Sectors

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**Abstract :** This measure has been taken by the PM in an attempt to address the resolve against corruption, black money, terrorism and counterfeit notes. 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 lowering of GDP growth. The GDP formation could be impacted by this measure, with a reduction in the consumption demand. However, with the recent rise in festivals, demand is expected to offset this fall in an overall impact. Moreover, this expected impact on GDP may not be significant as some of this demand will only be deferred and will re-enter the stream once the cash situation becomes normal.

**Key words:** demonetization, consumption, investment, production, employment

### Introduction

It creates a situation where lack of currencies jams consumption, investment, production, employment etc. In this context, the exercise may produce following short term/long term/, consumption/investment, welfare/growth impacts on Indian economy. The intensity of demonetization effects clearly depends upon the duration of the liquidity shocks at demonetisation on Indian economy. This measure has been taken by the PM in an attempt to address the resolve against corruption, black money, terrorism and counterfeit notes. This move is expected to cleanse the formal economic system and discard black money at the same time. One of the reasons that prompted the Government to demonetize Rs. 500 and Rs. 1000 notes is that their circulation was not in line with the Economic Growth. As per the Finance Ministry, during 2011-2016 periods, the circulation of all notes grew

40% but the circulation of Rs. 500 and Rs. 1000 notes relatively speaking, the economy has grown only by 30% which is way below the money circulation. At an aggregate level, this move will significantly eliminate the existing stock of black money, fake currency and will benefit the economy in the medium- to long-run, but, the question as to how the creation of black money in the future will be prevented still remains unanswered. It is expected to remove black money from the economy as they will be blocked considering the holders will not be in a position to deposit the same in the banks.

### ***Effect on GDP: Downward Bias to GDP Growth***

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



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

Lower Money Supply has a Deflationary Effect:

With the older 500 and 1000 Rupees notes being scrapped, until the new 500 and 2000 Rupees notes get widely circulated in the market, money supply is expected to be reduced in the short run. Reduction in money supply can also have a deflationary effect in the economy. However, whether the impact of the reduced money supply will lead to deflation or contraction in demand or a mix of both will vary from sector to sector depending on the nature of goods & services. To the extent that black money (which is not counterfeit) does not re-enter the system, reserve money, and eventually, 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 speed.

**Credit Impact across Sectors:**

Impact of this policy measure will flow to the economy mainly through the Real Estate sector, which has strong linkages with sectors such as cement and steel and which will turn credit negative in the short-run. A significant impact in the short-run will be on the daily/weekly

wage employment in the informal sector. The construction sector has one of the highest employment multipliers. The key segments of the economy where cash transactions play a vital role are real estate, gold and the informal sectors, which may face near term contraction. With more money coming into the banking ambit, deposit growth is likely to improve and positively impact the savings rate. The medium- to long-term gains are likely to outweigh the short-term pains

**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 increases in demand. This should eventually lead to strengthening of such systems and the infrastructures required.

**Bank Deposit Rates to Soften:**

We can expect a large amount of cash in circulation to be brought within the purview of the formal banking system by way of deposits. This is structurally positive for banks, as part of this cash gets deposited as current account and savings account (CASA) deposits, reducing banks dependence on higher cost borrowing. Deposit deployment remains a challenge in the short to medium term due to the current tepid demand for credit, subsequently pushing deposit rates lower. Across the medium term, the demand for real estate, especially in the secondary market where the cash component, as a proportion of



transaction is significant, could face a slowdown. This trickle-down effect could encompass the entire real estate sector putting pressure on the demand itself. This could adversely impact housing financiers with a large proportion of exposure Mortgage built with a self-employed customer profile. We believe that Micro Finance Institutions and Small Finance Banks may not be significantly impacted in the long term, considering that the cash flows of the borrower segment are usually in the smaller denomination.

#### **Payment Banks to Benefit:**

Payment banks and others entities which are part of the transaction ecosystem are likely to be long term beneficiaries, as more and more cash finds its way into the formal banking channels. We believe the cumulative measures taken to reign in black money will improve banking habits, create financial and transactional history of the informal & cash dependent segments and could, over the long term, make them 'bankable'.

#### **Impact on Consumption Sectors**

**Agreement Cost of Real Estate May Rise:** We expect that the real estate demand from end users is unlikely to be impacted, since a majority of them are backed by funding from bank loans. Demand from investors for real estate however may come down since in some cases, investors prefer cash transactions. If the proportion of earlier transactions in the real estate sector, which were allegedly done through partial cash payment reduces, the registered prices for real estate will go up. We expect the supply of real estate in the secondary market,

which is strongly rumoured to have a large cash component involved, to suffer in the short term, which may in turn improve demand for residential real estate in the primary market.

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

#### **Effect on Banks**

As directed by the Government, the 500 and 1000 Rupee notes, which now cease to be legal tender are to be deposited or exchanged in banks (subject to certain limits). This will automatically lead to more amounts being deposited in Savings and Current Accounts of commercial banks. This, in turn, will enhance the liquidity position of the banks, which will be later utilized further for lending purposes. However, to the extent that households have held on to these funds for emergency purposes, there are expected to be withdrawals at the second stage



**Private Educational Institutions:** Since Private Educational Institutions take huge amounts of donations in Cash which is 40 % to 50%, we expect that this move will impact the Private Education Institutions receipts.

**Cashless Economy:** The gradual transition towards digitization and a cashless economy will definitely help curb corruption in the long run. The increased transparency and record of transactions will make it considerably difficult to hold black money and carry out under-the-table deals. The added convenience of using digital payment solutions and virtual wallets can't be ignored either.

.For example, small and marginal farmers in the fruits and vegetables category typically require off-loading of their produce in the local in cash and could see an immediate impact. A sudden demonetization will adversely impact this segment of the economy and it will witness immediate contraction, though this impact will diminish over time.

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

- Agriculture and related sectors
- Small traders
- SME
- Services Sectors
- Households
- Professionals like doctors, carpenters, utility service providers, etc.
- Retail outlets

**This is bad for the following reasons:**

More deposits than the available money in the system before demonetisation increases government liability and weakens its financial architecture.

It exposes the government claim of unearthing black money. Black money hoarders may have actually laundered their black money into white by taking advantage of loopholes in government schemes.

This will expose the MODI government to a frontal attack from the Opposition, which will say that instead of achieving its stated objective of demonetisation, the government has attracted more black money because of its sloppy implementation.

This is a gloomy scenario for the MODI government, both economically and politically. It will also put pressure on the rupee given the upward trend in international oil prices hurt the economy.

Bad economics may well prove to be bad politics for Modi and the BJP as millions of Indians line up in long queues outside banks and ATMs across the country to withdraw their own money and who have not been getting even the rationed cash after waiting in the queues for hours.

It is a long haul and there is no magic wand to shoo away the cash crisis. Consider these facts:

The RBI could print currency notes in its four presses to the tune of Rs 2,700 CRORES daily. This has now been increased to Rs 4,000 CRORE daily, but the daily requirement is Rs 13,000 CRORE.



It takes 9 days for the making of a currency note. One currency note costs the exchequer Rs 37, irrespective of its face value.

The printing presses can't run non-stop for 24 hours and need to be switched off for three hours in a day. Deposits will create more demand for government bonds and other high rated bonds in a situation of tepid demands for credit, leading to lower bond yields especially in the shorter end of the curve. At the same time, a reduction in leakages in systemic liquidity will reduce the scope for open market operation purchases in the coming days. We believe that the RBI will continue to sterilize excess liquidity from the banking system to keep the short term rates aligned with the policy rate.

This essentially represents a change in regime for the real and financial economy. Domestically, there could be some turmoil as the effect will be disproportionately felt by the lower and upper income classes. Internationally, the government is likely to get a thumbs up for the move and more countries could potentially see this as a viable option to curb black money and stem illegal financial activity

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.

Demonetization will likely result in people adopting virtual wallets such as

Pay tm , Ola Money etc.: This behavioural change could be a game changer for India.

### Temporary chaos and confusion

Public will face minor problem for a few days owing to the scarcity of lower denomination notes in the system.

As most of the unaccounted wealth is particularly widespread in real estate sector, the central government's latest decision on note ban is expected to cause problems for developers. As there will be the liquidity stress on them, they may slow down the construction works and it would eventually increase the number of residential projects getting delayed on its completion.

### Conclusion

Since most of the Rural Economy is based on Cash, it's going to impact the Rural Economy Sectors with a sizeable magnitude of Cash transactions such as Real Estate, Construction, Jewellery, high-end retail, White Goods and travel & tourism are expected to adversely affect. It will push the economy because of flow of more money into the banking system. In the long term, the economy will benefit from the reduction of the black money, which will lead to higher tax collection, better business environment, less corruption & transparency. It will improve the situation of Fiscal Deficit of the Country and hence reduce the fiscal deficit. Interest rates will decline further because of decrease on Inflation as banks are flushed with huge inflows. It creates a situation where lack of currencies jams consumption, investment, production, employment etc.



In this context, the exercise may produce following short term/long term/, consumption/investment, welfare/growth impacts on Indian economy. The intensity of demonetization effects clearly depends upon the duration of the liquidity shocks at demonetisation on Indian economy.

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Dr. Rangarajan, The writer was chairman of the economic advisory council to the Prime Minister and governor of RBI.



## **Demonetization, a technique to balance the market forces in the economy**

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### **Abstract**

Money play a significant role in the smooth development of the economic system of a nation especially if is a developing country like India. Money as a medium of exchange and store of value is an inseparable part of the socio-economic system of those countries where more people are illiterate s and majority are just above poverty line or below poverty line and are over populated . Small trade in unorganised sector takes major share of retail trade in such economies. For such economies money as medium of exchange play crucial role. Such economies are responsible for the mounting black money also. Thus demonetisation is good to some extent to eradicate the problem of black money and corruption but sudden and unplanned demonetisation is dangerous.

**Key words:** Monetary Policy, Medium of exchange, Store of value, Legal tender, Currency Regulations

*Money is little like aeroplane – marvellous when it works, frustrated when it is immobilised, and tragic when it crashes."*

*C.L.Harriss*

### **Introduction**

Money as a medium of exchange and store of value became an integral part of man's socio-economic life. Money in the form of legal tender or the currency made life of man comfortable in dealing with routine life activities. Money is a wonderful invention of man and today's economic system depends on money for its survival and expansion.

Money as medium exchange, store of value, standard of deferred payments became an essential element for smooth socio economic life of the world. Money is responsible to make things happen around the world and is the chief motivator for sustainable development of the world at large and an individual in particular.

The policy that deals with money and its regulation is monetary policy. The monetary policy guides the Central bank of the country to manage the money in circulation.

Depending on the socio-economic conditions and the political situation, the central bank advices the Government on money expansion and contraction in the economy. Thus the monetisation and demonetisation are basically to regulate money flow in the circulation.

### **Objectives of the study**

- To know what is money and its role,
- To know how monetary policy works as an instrument in the hands of





the Central Bank and also the Government.

- To know the impact of monetisation and demonetisation
- To Identify some practical solutions to handle the situation.

### **What is money?**

Money is primarily the medium of exchange. There is no precise definition of the term money but it is defined on the basis of its functions.

According to Robertson, "Anything which is widely accepted in payment for goods or discharge of other kinds of business obligations."

According to Halm, "The word money has been used to designate the medium of exchange as well as standard of value."

Currency is one of the forms of money which includes coins also. This is called legal tender. The most important function of money is medium of exchange and store of value. As a medium of exchange money became the most wanted thing in the world and as a store of value this is desired by all.

### **Monetary policy**

Monetary policy is the Government policy with regard to issue of currency and its regulation through the central bank.

According to Prof. Kent, monetary policy refers to "the management of the expansion and contraction of the volume of money in circulation for the explicit purpose of attaining a specific objective such as full employment".

Monetary policy is executed by the central bank of the country, the monetary authority of the country. The objective of the policy is to influence the level of income of the economy.

Thus regulation of money in circulation is a technique to balance the economic system according to the changing needs. Monetary regulation includes changing rates of interest in money market through techniques such as bank rate policy, open market operations or selective methods of central banks or expansion and contraction of currency in circulation.

All the nations generally adopt the credit control techniques of the central bank to regulate the money in circulation. Withdrawing or cancelation or abolition of money is a rare decision of both the central bank and the Government. Because this decision disturbs the economy.

### **Need for demonetisation**

Demonetisation is something like withdrawing currency from circulation by different means. The government under the guidance and advice of the central bank of the country decides to demonetise. Important reasons may be

- To bring equilibrium between demand for and supply of money in the circulation.
- To reduce the increasing inflationary conditions
- To check black money
- To control illegal holding of currency
- To control illegal, anti social and anti national activities





- To reduce physical currency transactions to bring transparency in all dealings.

- To check corruption

### Impact of demonetisation

With some of the above objectives the Government of India abolished Rs1000 and 500 notes. The core thrust according to the Prime minister is to eradicate corruption and weaken the terrorists.

### Advantages of demonetisation are:

- It is easy and quick method of bringing black money into light.
- This can disturb the black money holders and put them in a helpless state.
- Unhealthy inflationary conditions can be controlled because the illegal money will be reduced..
- More people can be brought under the scope of tax. In India the percentage of direct tax payers are very insignificant. Now more people can be brought under the scope of direct taxes.
- It can help to control the prices of real estate sector which are the heaven to black money holders
- Transparency can be in all business dealings and all kinds of payment
- Corruption especially among bureaucrats can be checked efficiently
- Corruption in politics especially during elections can be reduced by reducing the individual money reserves.
- Hoarding of currency which is not good for economic development can be discouraged.

- Printing and maintenance of currency in circulation is very expensive task. According to the annual reports of RBI the Bank spent more than Rs.3500 cr to print currency in one year. It also needs a large number of employees to manage. All such unnecessary expenditure can be reduced and the same can be diverted to more productive activities.

### Problems

- India is a country with more low income groups and illiterates who find it difficult to manage routine life when money in circulation is suddenly withdrawn.
- Indian population is very large and it is humanly impossible to meet their currency requirements in short time.
- For several centuries people are accustomed for a strong medium of exchange and it is practically difficult to transform the economy into currency less economy.
- Common man is the most suffered than others with the decision of the Government. Because Indian economy is dominated by daily wage earners, very small traders, farmers and income-less dependents such as children, students, house-wives and senior citizens who are the worst sufferers of demonetisation
- For small traders and daily wage workers it takes long time to recover and come to normal state and by that time a huge damage will be caused to the economy.
- The other strata suffered are senior citizens and remote rural and tribal people. Who are unable to access banks



- Black money holders are able to convert some percentage of currency through various means.

### **What to do to improve the situation**

The decision of demonetisation to reduce black money and control inflation is really a good decision and all appreciated it. But people suffered more because of wrong estimations and unplanned decisions created more troubles.

RBI being the monetary authority is unable to estimate the situation of sudden withdrawal of currency notes which are in great need without making alternate facilities.

If the Government is able to bring some liberal tax policy, more can become the tax payers.

The tax policy is such that they squeeze the payers so much that they are afraid to declare the income. So it is in the hands of the Government to make a public friendly tax system so that many can become the tax payers.

The immediate steps to be taken by the RBI and the Government should be to reduce man-hours lost in standing queues in-front of bank counters and ATMs. If not the damage caused to the economy cannot be repaired in short time.

The development of currency less economy should be gradual but not sudden to protect the economy

### **Conclusion**

It can be concluded that the decision of the Government is good if its results are beneficial to the country. The policy

makers need to balance the pains and gains of general public and decide the future tax policy of India. Otherwise the sacrifices and troubles of general public will be wasted.

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## Notional retrospect of demonetization in India

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**Abstract:** India right from the traditional times despite of having good resources was striving very hard to be a developed economy and to have its legal, rightful place among the list of developed nations in the world. India wants itself to transform from developing country to developed country and any leaders and economists have done many reforms towards this. One daring reform towards this concept will be Demonetization by the central govt under the leadership of Shri. Narendra Modi. The whole country was suddenly stumbled to hear this unique strategy by the govt aimed to eliminate the black money which was acting as a main hindrance towards the economic development and to maintain a corruption free and a transparent economy. This paper highlights the Demonetization concept as a whole and tries to enlighten the readers on the same with a objective of creating awareness among the readers and the society.

**Key Words:** Economy, Development, Corruption, Black Money, People, Banks etc.

### Introduction:

*"The demonetization, move could change the face of the Indian economy."-Crisil Report*

Demonetization is a dynamic step to make the legal money as an illegal and to make it invalid. Generally this will be done when there is the new currency coming in place of the old ones. European Union followed the same when they decided to adopt Euro as the common currency. During this process the old currency can be exchanged for the new currency. There are many countries which have undergone demonetization process earlier like Zimbabwe, Fiji, Singapore, Philippines etc. In the Indian context this decision was taken to eliminate the black money and fake currency notes which were acting as main hindrances for the development of the

country. However in case of India this was not the first time alone and the same was done in the year 1946, when Indian govt eliminated the then Rs.1000 and Rs.10000 notes from the circulation and again it was demonetized in 1978 by the Morarji Desai Govt.

The aim of this scheme was certainly to curb the menace of black money and make it as taxable and beneficial. Moreover the high notes are also acting as a finance for terror operations which was a big threat to the entire world. However because of this scheme there are chances that the GDP growth of India can get down by 0.5% during the second



quarter of 2016-17. However the change in GDP in a positive manner can be noticed during the coming years. The demonetization of currency was certainly a bold step taken by the govt which was welcomed by the people of India and across the world. The problem of counterfeit currency can be abolished only when the new currency was put into circulation. This counterfeit and old money left with the terrorists are only pieces of waste paper. It is also a general view that every year nearly 70 crores worth of black money is pumped into the economy and so naturally this will act as a blessing in disguise for the common and middleclass man.

However this may not be the accurate activity to curb black money as already this money is pumped into the companies across the world. In case the people have bought land, gold etc using black money then this cannot be identified and taxed and hence these may not utilize affectively. However it is really not possible to curb this evil immediately and a careful evaluation of this scheme is to be done.

The main issue with back money is 1) who has it? And 2) How much do they have? There are no real calculations on the extent of black money available in the country and as per the govt estimates these may range anywhere in between \$500 billion to \$1400 billion and out of these Corruption, Hawala and Crime are the main sources and out of which Corruption is the prominent one.

#### **Black Money in Corruption:**

As per 2011 reports, India has ranked in 94<sup>th</sup> rank out of 176 in corruption index

with a score of 36 and it has recently reached the rank 76 which is certainly a good improvement but certainly not at all the desired improvement. The major portion of this is coming in the form of bribes paid to govt officials by the civilians. The govt at all the levels i.e. top, bottom and middle levels are vexed with this corruption. Economic reforms are acting as a basic source of corruption for many politicians. The sources of corruption can be traced to scarcity, property rights and their enforcement, transaction costs and information asymmetries, and political position (Patibandla and Sanyal, 2009).

#### **Black Money in Hawala & Crime:**

This involves transferring of money without moving and it and nearly \$100 billion to \$300 billion are transferred every year through hawala. In India as per the Interpol, hawala amount comes to 40% of the GDP every year. Criminal activities like drug trafficking, gunrunning; extortion etc also can be efficiently controlled using demonetization.

#### **Indian Economy & Demonetization:**

- This process is going to hit the economy in the short term.
- Indian economy consumption would be coming to a virtual halt.
- Service sector, which plays an very important role in the economic activity will be the hard hitter.
- Sectors like real estate, jewellery, logistics etc will face instability in the short run.



- Tough time ahead for the companies with more debts and they may become defaulters also.
- There will be added replacement costs relating to the new currency.
- Taking the standard of people in India, it is very difficult to implement cashless society.
- Negative impact on inflation and customer spending will be a hit.
- Food item inflation will have a drastic and adverse effect.
- Deposit rates and lending rates to fall in banks.
- Banks will slash further the repo rates.
- Indian equity markets will be falling.
- Value of rupee will further be declined.
- Credit access and financial inclusion will be increased.
- Interest generated from caught black money can be used for the welfare of the society.
- Inflation to fall in the long run.
- Banking system to get a boost as new money to enter into the system.
- Cost of handling and risk is safer with soft money.
- Cash will be useless with the people who have the black money.
- Reduces tax avoidance.
- Jewellery like sectors will also come under tax sector.
- Tax and interest rates on loans in the longer run will be coming down.
- Helps in driving disposable income.
- It will have a positive impact on consumption demand in the days to come.

**Pro's of Demonetization:**

- It will have a drastic affect on the corrupt practices.
- Enemy country's with hefty of old notes involved in terrorism like activities will be suffered.
- Smuggling and fake currency will come to the halt.
- Banking system to improve as we are headed to the cashless society.

**Views and Counter Views:**

- This should be done after considering that majority of the black money is invested in land, jewellery etc.
- Improper planning and implementation of this scheme is done. There is no foresight. Many sectors of people like farmers,



daily wagers, laborers etc are facing a lot of troubles.

- The market needs to be piled up by Rs.100 and other smaller denomination notes before this scheme but unfortunately it was not done.
- This was affectively done without any announcement; otherwise this would be of no use.
- There are many problems as the limit of withdrawal was not higher. However this was good because in case its higher it will again result in black money.
- India, one of the largest countries in the world in terms of population is moving towards a cashless society which is a good sign of digital literacy.

#### Conclusion:

There was no hesitation in saying that this was a very bold step and this should be welcomed by all but at the same time one should also have a look at the bigger picture in the days to come. One should not forget that this is what the people of the country are asking for a long time and finally the govt has taken initiation to start the same. The govt also should not forget that it had touched a bee nest and if everything goes on well, it certainly gets the credit and by chance unfortunately if the implementation was a failure then this govt will be credited with the name and fame behind jeopardizing the Indian economy which certainly is a hope of light for the countries around the world. Manmohan

singh and PV Narsimha Rao are credited for saving the Indian economy by globalizing it and today the fruits of which are enjoyed by the people of India and that is the reason why they are remembered forever. However its now the time to see whether Mr. Modi will join the likes of Mr. Singh and Mr. Rao and only answer for this can be given in the days to come and one should wait for that time. Indians are always optimistic in nature and towards this scheme also they are optimistic and we sincerely wish that our optimism will be paid and come true. All the Indians are eagerly waiting to see their country and their economy as a developed one and the day is really not far where the Indian flag will be held high among the likes of the developed nations of the world. India will be the largest democratic country with largest population, secularism, tolerance and development.

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## A Study on Impact of Demonetization on Common Man

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**Abstract:** Demonetization has caused widespread chaos in the nation, with people (mostly lower strata) facing sudden cash shortage, long queues accumulating in front of Banks and ATMs. It has also been argued that this demonetization strategy will have no significant effect on curbing black money, because of two reasons: firstly , most of the black money is deposited in foreign banks and is not in Indian currency, secondly even in India, a bigger chunk of the black money is not kept in liquid form, but as Gold. Now, both of these are true to much extent but to focus only upon these will not show a correct picture of the impact of demonetization. In November, everyone appreciated the ban, then some started arguing and now everyone is struggling. It is more like the hypocrite in us speaking this. Based on the facts, this paper focused on problems of demonetization, and impact of demonetization on common man.

**Key words:** demonetization strategy, terrorism, hypocrite

### Introduction:

The demonetization of Rs.500 and Rs.1000 banknotes of Mahatma Gandhi series was a policy ordained by Government of India on 8<sup>th</sup> Nov 2016. Immediately from the next day onwards i.e. from 9<sup>th</sup> Nov 2016 these notes were ceased to be legal tender in India. The announcement was made by Prime Minister Mr. Narendra Modi on 8<sup>th</sup> Nov 2016, in an unscheduled live television address at 20:15 (IST) and declared those currencies will be invalid and announced the issuance of new Rs.500 and Rs.2000 banknote for exchange of old currency. Howbeit, the denominations of Rs.100,

Rs.50, Rs.20, Rs.10 and Rs.5 of the series remained as legal tender and were unaffected by the decision.

The Government claimed this decision was taken to stop counterfeiting of the current banknotes used to fund terrorism and as a fight against to reduce/ eradicate corruption, black money, drug menace and smuggling. As every coin has two sides it does have some problems along with its advantages. Here in this paper I'd like to focus on the impact of demonetization on common man and the troubles he faced because of demonetization.





**Need for the study:** The 500 and 1,000 rupee notes were the largest denomination of money, which made up for 14 lakh crores in circulation. Demonetization has a direct impact on sectors dealing with cash—vendors, auto rickshawwallahs, taxi drivers, daily wage earners and small traders. The Indian system mainly functions on cash, and so, less cash means disruption in the flow. Even sectors like real estate, which deal with illegal cash transactions, will go through a rough patch leading to fall in profits. Further, When money is deposited in the bank, one earns interest for the same. After the announcement of note ban, there have been huge cash deposits in banks. In fact, some of the leading public and private banks have reduced the interest rates on deposits. Depositors might get lesser interest on their deposits, but the good news is that it will have a long-term positive effect on the economy as the lending rate (interest rate on loan) will fall. This will boost credit and investment, to recover the slumping economy, with this backdrop, the present study taken up for examine the impact of demonetization on common man.

**Objectives of the study:**

Keeping in view of above mentioned facts, the following are the objectives of the study:

- To study the impact of demonetization on common man
- To analyze the pros and cons of demonetization
- To offer suitable suggestions to concerned stakeholders.

**Methodology of the study:**

The study is basically conceptual in nature and for the purpose of the study; an extensive review of literature has been

studied and identified the critical challenges facing the common man in India. The study has undertaken with the help of secondary sources of data and already published data like news papers, websites and different reports given by the government.

**Problems of demonetization:**

The demonetization of currency denomination was also made in the past. In January, 1946, denominations of 1,000 and 10,000 rupees were demonetized and new notes of 1,000, 5,000 and 10,000 were introduced in 1954 and again these notes were abolished by the coalition government on 16<sup>th</sup> January 1978 to curb counterfeit money and black money.

Now, after the announcement of demonetization many officials, politicians and presidents and prime ministers of different nations has praised Mr. Modi to take this initiative. Even though it is a good task, it does affect common man a lot and made him uncomfortable with this decision.

There are some other problems as with along the good things that,

- The scarcity of cash due to this policy has led to chaos and most people holding old bank notes, faced difficulties to exchange them by standing in the endless queue outside of banks and ATMs across India, has become a daily routine for millions of people waiting to deposit old notes and to withdraw new banknotes from the day 1.
- ATMs and banks were running out of cash after a few hours of being functional and about half of the ATMs were non-functional.
- Even there are cases of violence, looting and deaths due to standing in queue to exchange old notes and lack of



medical help due to refusal of accepting old currency notes by hospitals.

- the black money will reemerge as now paying bribes will be much easier with Rs.2000 notes.
- In fact, if the same government does not come to power again, then there may be the risk of reversal of some of these policies.
- Bribes may be paid in the form of gold, foreign currency or smaller denomination notes or through consumer durables.
- The whole plan may boomerang as there is a complete demand collapse and people lose their jobs in unorganized sector in the near term.

#### **Impact of demonetization on common man:**

##### **1. Hindrance to daily activities:**

From the day 1 of the policy enactment common man has faced the trouble of doing his daily economic activities as the old currency notes became invalid and the only way for exchange is through banks.

**2. Inconvenience for having exchange of old currency notes at petrol pumps and hospitals:** people had faced a lot of trouble to exchange the old currency notes. Even though the government had said that the notes will be accepted at petrol pumps and hospitals they have rejected for exchange in most cases and in some cases at petrol pumps the person has to buy petrol for some of the amount he wants to exchange it for.

##### **3. Inadequacy of supply of new currency notes even at banks and ATMs:**

One has to wait for hours in the queues for exchanging of currency at banks and ATMs but they are unsure about procuring the new notes as the demand for exchange is more than the supply of

new banknotes and in some cases there were deaths, attacks, agitations and sporadic violence at banks and ATMs.

**4. Transportation Halts:** After demonetization was announced, about eight lakhs, truck drivers were affected with scarcity of cash, with around four lakhs trucks stranded at major highways across India were reported. Even at major highway toll junctions the toll plazas have refused to accept old notes. Later government has extended support by announcing of suspension of toll collections on all national highways across India until 2<sup>nd</sup> December.

**5. Agriculture:** Business transactions in the agricultural sector are majorly on cash. Thus they were adversely affected by demonetization. Due to scarcity of new banknotes, many farmers have inadequate cash to purchase seeds, fertilizers and pesticides needed for plantation of rabi crops usually sown around mid- November. Farmers and their unions conducted protests against demonetization as well as against the restrictions imposed by RBI on DCCBs which were ordered not to accept or exchange demonetized banknotes.

**6. Business:** The blow of demonetization has affected small businesses and sole traders a lot. They have experienced the reduce of transaction at their business as the customers are in cash deficit and they cannot accept the old banknotes. This has also affected e-business units as they experience a decline in Cash on Delivery orders

**7. Investors:** Investors also experience the effect of demonetization. Many prospective investors had lost their investments in stock market crash.



**8. Rabi crop:** Sowing of rabi crop slowed down in the last week of November compared with a normal season. According to a report by Edelweiss Securities, while 50 per cent of the rabi sowing has been completed, sowing activity remained slower than normal until November 25 because of the cash crunch in the economy. However, it was still 4.5 per cent higher on a year-on-year basis and 7.5 per cent lower than a normal sowing season. Last year, the sowing activity was impacted by low water reservoir levels. Market experts said the lower sowing of rabi crop could be attributed to demonetisation of Rs 500 and Rs 1,000 currency notes, which left the farmers short of cash. They are facing difficulty in buying seeds and fertiliser. However, the government has taken steps to ease the cash crunch at the rural level. It has allowed state-run distribution centres to accept old currency notes for agri-input purchases.

**9. Retail real estate:** Retailers could see some impact on their business in the short-to-medium term due to reduced cash transactions. The luxury segment is likely to be hit because of the historically high incidence of black money acceptance in this segment. However, credit / debit cards and e-Wallets should come to the rescue. Overall, the domestic consumption story remains intact, with no threat to the overall strength and growth of the Indian retail industry.

**Conclusion:**

The demonetization announced by Prime Minister Modi was sudden, and came as a shock. People who were born after 1978 would not remember anything about the past demonetization, except for those

who read the history, which was announced over All India Radio. Then, India was not digital enough. We did not have too many banks. But today, it is slightly a different story.

The men and women who have cash in their hands as part of their idea of savings, accumulating cash for an emergency expense. A habit from the past without ATMs and Digital Banking. Do not see that habit changing, especially given the fact that money from ATMs is now limited and does not depend on your account.

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## The Socio-Economic dimensions of Demonetization in India

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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 demonetize. This paper elucidates the impact of such a move on the availability of credit, spending, level of activity and government finances.

**Keywords:** demonetization, cashless transactions, credit, tax evasion

### 1. 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 8th of November 2016. People have been given upto December 30, 2016 to exchange the notes held by them.<sup>1</sup> 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 since there are limits placed on the amount that individuals can withdraw. In the months to come, this squeeze may be relaxed somewhat. The reasons offered for demonetization are two-fold: one, to control counterfeit notes that could be contributing to terrorism, in other words a national security concern and second, to undermine or eliminate the “black economy”.

There are potentially two ways in which the pre-demonetisation money supply will stand altered in the new

regime: one, there would be agents in the economy who are holding cash which they cannot explain and hence they cannot deposit in the banking system. This part of the currency will be extinguished since it would not be replaced in any manner. Second, the government might choose to replace only a part of the currency which was in circulation as cash. In the other words, the rest would be available only as electronic money. This could be a mechanism used to force a transition to cashless medium of exchange. The empirical extent of these two components will be unraveled only over the next six months. These two would have different effects on the economy in the short term and in the medium term, as will be explored below.

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 the corresponding incomes are reported for tax purposes or not. The third category would consist largely of agents who earn incomes below the exemption threshold and therefore do not have any tax liabilities. The uses that cash is put to for these various segments of the economy can be summarised in the form of Table 1. Finally, there would be demand for cash for illegal purposes like bribes in elections, spending over sanctioned limits, dealings in crime and corruption.

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 this assumption is 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 substantial. If, for instance, the extinguished cash was used as a medium of exchange in financing unaccounted income generation or income in the informal sector, demonetisation would result in these activities closing down and a corresponding reduction in the incomes and employment associated with these activities. The spillover effect would be felt by the organised sector 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 as 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 a 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 Internet banking."<sup>2</sup> 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.

In what follows, an attempt is made to present a discussion of the likely effects classified into very short term as in the next two months, the short term as in a six months to a year and the rest as





medium term. Within these, an attempt is made to distinguish between the effects if there is full remonetisation to the extent of deposits made in banks and a scenario of partial remonetisation.

### Very 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 transactions in the economy, the above would mean a severe contraction in income and consumption in the economy. This effect would be more severe on individuals who earn incomes in cash and spend it in cash. To a lesser extent it would also affect individuals who earn incomes in non-cash forms but need to withdraw in cash for consumption purposes, since a number of sectors in the economy still work predominantly with cash.

In terms of the sectors in the economy, the sectors to be adversely affected are all those sectors where demand is usually backed by cash, especially those not within the organised retailing. For instance, transport services, *kirana*, fruits and vegetables and all other perishables, would face compression in demand which is backed by purchasing power. This in turn can have two effects: while it is expected that supply exceeds demand, there would be a fall in prices, however, if supply too gets curtailed for want of a medium of exchange, prices might, in fact, rise.

Thus, while generally people seem to expect prices to fall, it is quite possible that prices would instead rise.

Alternatively, to keep the flows going, people might take recourse to credit - both the retailers and other agents in the economy might make supplies on credit in the hope that when the liquidity status is corrected, the payments can be realised. In these cases, the price of commodities might rise instead of falling. In other words, the impact of an incremental reduction in money supply where the demand and the supply chain remain unaffected would be different from a case where there is a drastic reduction in money supply and outputs might adjust rather than the adjustment being in prices. In other words, the expectation that inflation would decline might be belied.

A further impact would be a compression of the demand for non-essentials by all the agents in the economy in the face of uncertainty in the availability of cash. The demand from segments which have access to digital medium of exchange would remain unaffected, but that from the rest of the economy would get compressed. This would transmit the effect to the rest of the sectors in the economy as well.

Another sector where one expects to see effects in the very short run is the real estate space. With contraction in demand from one set of agents - say agents who have earned unaccounted incomes and placed them within the real estate space - either prices within this segment would fall or transactions would cease to happen. While of itself, this would be considered a positive development and evidence of a correction in the unaccounted incomes, it could lead to a



compression in investments in the construction sector which can have adverse income and employment consequences for the economy.

#### **Short-term effect with complete replacement:**

The short-term effect on the economy would depend on the speed with which and the extent to which the cash is replaced by the authorities. If the entire cash is replaced within a short duration of time, the effects beyond the very short term of 1-2 months might be little. But a few sectors are likely to be seriously affected. To give an example from two sectors which are supposed to have large employment effect on the economy, we can talk about agriculture, automobiles and construction.

This is the sowing season for the Rabi crop in some parts of the country and the harvesting season for the Kharif crop. Most of the purchases and sales in this segment of the economy are carried out through cash. With the elimination of cash from the economy, sale of kharif crop would be difficult unless the crop is sold on the promise of payment in future. Given the limited bargaining power of the farmer, the price they can realise for the crop can be adversely affected. On the other hand, in the sowing activity, people would not get access to the inputs required since most of the inputs are now purchased from the market unless they seek access to credit from the supplier. In other words, with demonetisation, there would be a significant strengthening of the informal sector credit market in the rural economy. Further, if there are agents who do not get access to credit from the informal sector agents, their sowing activity and hence their incomes in the next season would be adversely

affected. Thus, in spite of a good monsoon in large parts of the country, the farmer might not get the benefits.

#### **Short-term effect with incomplete replacement:**

If, on the other hand, the authorities choose to replace only a fraction of the total cash that was surrendered by the people to the banking sector, then one would witness some other changes/effects in the economy. For transactions to be restored to the pre-change level, a number of agents who are using cash as a medium of exchange have to move to using digital versions of money as the medium of exchange. While this change is gradually happening in the economy, if it is forced by making cash inaccessible, the compression in demand as well as in income generation in the economy would continue for a longer period until people get familiar with the functioning and use of these media.

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

**1. Infrastructure Issues:** There is need for a significant upgrade of the banking system as well as in the telecom infrastructure that would provide the backbone for digital transactions. For people to be able to transact at any time and place as well as for them to consider it a reliable medium of exchange, it is important that not only the banking system is upgraded to ensure that transactions can be completed without a hitch, but the supporting infrastructure too is up to the mark. For instance, in many parts of the economy, there is limited and intermittent supply of electricity as well as mobile connectivity.





In these areas, it would be difficult to expect people to shift to electronic medium of exchange.

**2. Consumer behaviour Issues:** Apart from the technological issues, there is a behavioural change that is being expected in people from using cash as a medium of exchange to using other cash substitutes both for making payments and receiving payments. This transition requires individuals to make two changes in their behaviour: one, agents need to move from tangible means which can be seen and felt to forms which are less tangible or not tangible, and second, they have to learn to rely on technologically advanced tools to undertake regular day to day operations. The latter requires agents to be educated to the extent of comprehending the content of transactions. If this transition is not suitably managed, agents might be tempted to move to non-official cash substitutes.

**3. Accessibility in language:** In addition to all of the above, most of the banks and the mobile instruments for transaction are currently adapted to a single to two languages. If the bulk of the population of this country needs to come on board, it might be important to make these facilities available in a myriad of Indian languages to ensure that the user can comprehend the transaction that they are entering into.

**4. Transition issues for banking sector:** There are multiple issues here. 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 into the 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 larger proportion of the deposits would be retained for short-term lending and can even be dedicated to the call money market.

Second, while  $1/\text{reserve ratio}$  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. For instance, if people who receive credit from the bank make payments through cheques alone and they in turn make payments through cheques, then the potential credit creation can be realised. However, if on receipt of payment, the agent withdraws



the money to cash and makes payments, only a fraction of the credit/deposit will return to the banking system. Thus, larger is the extent to which cash is used as a means of transacting, smaller is the total credit that can be generated. With a withdrawal of cash from circulation, the deposits will continue to remain in the bank, it would merely shift from account to account or from bank to bank. Thus, even on the earlier deposits, the amount of credit that can be generated would be larger. This is another reason why the banks would need to remodel their investment decisions corresponding to a given level of deposits.

A third issue that might arise as a transition issue is 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. In periods of scarcity of coins for instance, it is commonly known that people pay a premium to get the change. While this can be considered a transition issue, there are two different implications of such a development:

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.

This might undermine the confidence that people have in the currency and hence, encourage move to other currencies.

Apart from the transition issues faced by banks, in judging the impact on

the economy, it is important to differentiate between the two changes that the demonetisation can bring about in money supply. The first change, i.e., cash being extinguished, to the extent it was being used as medium of exchange, would result in a compression in incomes, employment and consumption in the economy. On the other hand, the effect of the second change, i.e., cash being only partially replaced in the system would have the opposite effects of expansion in potential credit creation. The potential credit creation would translate into actual credit creation provided there is sufficient demand for credit. If the demand for credit in the economy is large enough, the potential credit can be realised. Of the credit created, other things remaining the same, it can be expected that at least a part of the credit, will be for productive purposes. This would mean expansion in investment in the economy and subsequently an increase in GDP and employment.

If there is increase in investment in the economy, the demand for capital goods rises. If output can expand in this sector, there would be an expansion in the income generation and in demand for goods and services. Sectors that are not operating with excess capacity cannot meet the expanded demand with increased output, leading to increase in prices. This would hold for agriculture as well as any industry with long gestation lags to investment. In other words, in the short run there is a possibility of increase in inflation.

#### **Effects on government finances:**

The effects of demonetisation on government finances can be divided into three categories: the impact through RBI's finances, the impact through taxes



and the impact through credit available to finance deficits.

### Conclusions

The demonetisation 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 activity in the economy and that is a cost that needs to be factored in while assessing the impact of the demonetisation on the economy and its agents.

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 a large part 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 to interpret this as success of the programme in bringing in people who

were hiding black money. Nor can they be interpreted as additional balances that the 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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## Impact of Demonetization on Various Sectors & the Economy

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**Abstract:** PM Modi has announced a war against black money and corruption. In an emboldened move, he declared that the 500 and 1000 Rupee notes will no longer be legal tender from midnight, 8th November 2016. The RBI will issue new chip based Rs. 500 and Rs. 2,000 notes which will be placed in circulation from 10th November 2016. Notes of 100, 50, 20, 10, 5, 2 and 1 Rupee will remain legal tender and will remain unfazed by this decision.

**Key words:** circulation, sudden decline, denomination.

### Introduction:

This measure has been taken by the PM in an attempt to address the resolve against corruption, black money, terrorism and counterfeit notes. This move is expected to cleanse the formal economic system and discard black money at the same time. One of the reasons that prompted the Government to demonetize Rs. 500 and Rs. 1000 notes is that their circulation was not in line with the Economic Growth. As per the Finance Ministry, during 2011-2016 periods, the circulation of all notes grew 40% but the circulation of Rs. 500 and Rs. 1000 notes went up by 76% and 109% respectively. Relatively speaking, the economy has grown only by 30% which is way below the money circulation.

At an aggregate level, this move will significantly eliminate the existing stock of black money, fake currency and will benefit the economy in the medium- to long-run, but, the question as to how the creation of black money in the future will be prevented still remains unanswered.

The impact of this move will be felt across sectors with differing intensities and across varied time zones.

### Effect on parallel economy: Cash Economy to Witness Contraction

The currency of the aforementioned denominations constitutes around 86% of the total value of the currency in circulation. It is expected to remove black money from the economy as they will be blocked considering 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.

### Effect on GDP: Downward Bias to GDP Growth

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



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

#### **Lower Money Supply has a Deflationary**

**Effect:** With the older 500 and 1000 Rupees notes being scrapped, until the new 500 and 2000 Rupees notes get widely circulated in the market, money supply is expected to be reduced in the short run. Reduction in money supply can also have a deflationary effect in the economy. However, whether the impact of the reduced money supply will lead to deflation or contraction in demand or a mix of both will vary from sector to sector depending on the nature of goods & services. To the extent that black money (which is not counterfeit) does not re-enter the system, reserve money, and eventually, 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 speed.

**Impact on Bond Markets:** Surge in deposits will create more demand for government bonds and other high rated bonds in a situation of tepid demands for credit, leading to lower bond yields especially in the shorter end of the curve. At the same time, a reduction in leakages in systemic liquidity will reduce the scope for open market operation purchases in the coming days. We believe that the RBI will continue to sterilize excess liquidity

from the banking system to keep the short term rates aligned with the policy rate.

**Credit Impact across Sectors:** Impact of this policy measure will flow to the economy mainly through the Real Estate sector, which has strong linkages with sectors such as cement and steel and which will turn credit negative in the short-run. A significant impact in the short-run will be on the daily/weekly wage employment in the informal sector. The construction sector has one of the highest employment multipliers. The key segments of the economy where cash transactions play a vital role are real estate, gold and the informal sectors, which may face near term contraction. With more money coming into the banking ambit, deposit growth is likely to improve and positively impact the savings rate. The medium- to long-term gains are likely to outweigh the short-term pains.

#### **Effect on Banks**

As directed by the Government, the 500 and 1000 Rupee notes, which now cease to be legal tender are to be deposited or exchanged in banks (subject to certain limits). This will automatically lead to more amounts being deposited in Savings and Current Accounts of commercial banks. This, in turn, will enhance the liquidity position of the banks, which will be later utilized further for lending purposes. However, to the extent that households have held on to these funds for emergency purposes, there are expected to be withdrawals at the second stage.

**Effect on Online 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 increases in demand. This should eventually lead to strengthening of such systems and the infrastructures required.

**Bank Deposit Rates to Soften:** We can expect a large amount of cash in circulation to be brought within the purview of the formal banking system by way of deposits. This is structurally positive for banks, as part of this cash gets deposited as current account and savings account (CASA) deposits, reducing banks dependence on higher cost borrowing. Deposit deployment remains a challenge in the short to medium term due to the current tepid demand for credit, subsequently pushing deposit rates lower.

**NBFC's Asset Quality Faces Pressure:** We believe in the asset quality of Retail Asset Lenders, especially NBFC's which have developed expertise in the credit assessment of the informal segment and have built models around it to stay under pressure in the short term. Within NBFC's, asset quality of lenders with a large dependence on cash collection remain vulnerable in the short term. In the longer term the implications could be a risk profile shift for the NBFCs, as the stronger borrower profile could potentially migrate to banks. Across the medium term, the demand for real estate, especially in the secondary market i.e. Resale Transaction and Tier-II cities where the cash component, as a proportion of transaction is significant,

could face a slowdown. This trickle-down effect could encompass the entire real estate sector putting pressure on the demand itself. This could adversely impact NBFC's & housing financiers with a large proportion of exposure Mortgage built with a self-employed customer profile. We believe that Micro Finance Institutions and Small Finance Banks (SFB's) may not be significantly impacted in the long term, considering that the cash flows of the borrower segment are usually in the smaller denomination. However, there could be near term disruptions in the collection cycles along with a spike in over dues, which could put their liquidity strengths and the disbursal cycles under pressure.

**Payment Banks to Benefit:** Payment banks and others entities which are part of the transaction ecosystem are likely to be long term beneficiaries, as more and more cash finds its way into the formal banking channels. We believe the cumulative measures taken to reign in black money will improve banking habits, create financial and transactional history of the informal & cash dependent segments and could, over the long term, make them 'bankable'.

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

#### **Impact on Consumption Sectors**

**Agreement Cost of Real Estate May Rise:** We expect that the real estate demand from end users is unlikely to be impacted,





since a majority of them are backed by funding from bank loans. Demand from investors for real estate however may come down since in some cases, investors prefer cash transactions. If the proportion of earlier transactions in the real estate sector, which were allegedly done through partial cash payment reduces, the registered prices for real estate will go up. We expect the supply of real estate in the secondary market, which is strongly rumoured to have a large cash component involved, to suffer in the short term, which may in turn improve demand for residential real estate in the primary market.

In the medium term, the prices in this sector could regain on many fronts as developers rebalance their prices (probably charging more on cheque payment).

**Used car Sales May Fall:** Sales of vehicles in the second hand market for original equipment manufacturers will get impacted, which will cause a ripple effect on New Car sales, as buyers will not be able to dispose of their old vehicles easily.

**Slowdown in Discretionary Spending to Hurt Consumer Durable Sales:** Sales of White Goods like TV, Refrigerator & Washing Machine could slump as much as 70% as a good portion of the market is driven by Cash. This may continue for next Six Months till the dust settles down and there is adequate circulation of the new currencies.

Prices are expected to fall only marginally, due to moderation in demand, as use of cards and cheques could compensate for some purchases.

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

**High End Retail Demand to fall:** We expect the impact on high end fashion retail and luxury goods to be more pronounced as discretionary demand in this segment will be curtailed. In case of Quick Service Restaurants, although 60%-70% of the transactions are currently in cash, the impact is likely to be moderate due to the low ticket size of purchases and high likelihood of patrons adapting to plastic money. We expect a limited impact to be caused on the food and grocery retail sub-segment, given the non-discretionary nature of purchases in this segment, since the buying cycle for the current month would have been largely influenced.

**Private Educational Institutions:** Since Private Educational Institutions take huge amounts of donations in Cash which is 40 % to 50%, we expect that this move will impact the Private Education Institutions receipts.



**Medical Institutions (Both Hospitals & Medical Colleges):** Again, as Medical Institutions like Hospitals and Colleges take huge amounts of donations in Cash which are more than 100 % of fees, we can keep on expecting that this move will impact not only the admissions but also the receipts.

**Political Parties:** Elections & Political Parties are major sources of Black Money transactions. Most of the funding of National Political Parties is in Cash which is 40% to 50%, and when it comes to Regional Parties it goes upto 50% to 60%. The sources of more than 90% of such funds are never disclosed. Candidates as well as their donors even the Political Parties will feel cash strapped. An assembly seat candidate spent on an average Rs. 4-5 Crores on Campaigning that is likely to go down drastically.

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

#### **Effect on Various Economic Entities**

The key segments of the economy where cash transactions play a vital role are real estate / construction, gold and the informal sectors as such. The role of cash transactions in case of real estate and gold is mostly dubious, however in case of the informal sectors it is the lifeline. For example, small and marginal farmers in

the fruits and vegetables category typically require off-loading of their produce in the local Mandi in cash and could see an immediate impact. A sudden demonetization will adversely impact this segment of the economy and it will witness immediate contraction, though this impact will diminish over time.

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

- Agriculture and related sectors
- Small traders
- SME
- Services Sectors
- Households
- Professionals like doctors, carpenters, utility service providers, etc.
- Retail outlets

#### **Conclusion**

The nature, frequency and amounts of the commercial transactions involved within these sections of the economy necessitate cash transactions on a 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.

- Since most of the Rural Economy is based on Cash, it's going to impact the Rural Economy





□ Sectors with a sizeable magnitude of Cash transactions such as Real Estate, Construction, Jewellery, high-end retail, White Goods and travel & tourism are expected to adversely affect.

□ It will push the economy because of flow of more money into the banking system.

□ In the long term, the economy will benefit from the reduction of the black money, which will lead to higher tax collection, better business environment, less corruption & transparency. It will improve the situation of Fiscal Deficit of the Country and hence reduce the fiscal deficit.

Interest rates will decline further because of decrease on Inflation as banks are flushed with huge inflows.

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## The Present Scenario of Demonetization in India

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**Abstract:** The need of demonetisation as enunciated by the government, recent demonetisations in some other countries, the ground situation in a few days and after one month after declaration of demonetisation on 8<sup>th</sup> November' 2016 presented. How the influential people are not affected and common people are facing troubles daily, pros & cons of demonetisation, loopholes in implementation, and remedies are discussed.

**Key words:** Demonetisation, higher denominations of Rs. 500 and Rs. 1000, loopholes, remedies, ATMs.

### Introduction

Demonetisation is withdrawal of units of money from circulation or to cease the status as legal tender. From midnight of 8<sup>th</sup> November' 2016 in our country the units of higher denominations Rs. 500 and Rs. 1000 banknotes of the Mahatma Gandhi Series were demonetised. 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. The opposite of demonetisation is remonetisation where a form of payment is restored as legal tender. There are many reasons why nations demonetise their local units of currency. Some reasons include combating inflation, corruption, and to discourage a cash system. The process of demonetisation involves either introducing new notes or coins of the same currency or completely replacing the old currency with new currency.

**Recent History of some Demonetisations:** In US the Coinage Act of 1873 demonetised 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 remonetised silver as legal tender in 1878. In 2015, the Zimbabwean government demonetised 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 demonetisation 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 demonetised. However, the old currencies remained convertible into euros for a while so that



a smooth transition through demonetisation would be assured.

tax penalty of 200% of the tax owed was imposed.

### The present Demonetisation in India:

The demonetisation of 500 and 1,000 banknotes was a policy enacted by the Government of India on 8<sup>th</sup> November' 2016. All 500 and 1,000 banknotes of the Mahatma Gandhi Series ceased to be legal tender in India from 9 November 2016. The announcement was made by the Prime Minister of India Narendra Modi in an unscheduled live televised address at 20:15 Indian Standard Time (IST) on 8 November. In the announcement, Modi declared that use of all 500 and 1,000 banknotes of the Mahatma Gandhi Series would be invalid from 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. However, the banknote denominations of 100, 50, 20, 10 and 5 of the Mahatma Gandhi Series remained legal tender and were unaffected by the policy.

The government claimed that the demonetisation was an effort to stop counterfeiting of the current banknotes allegedly used for funding terrorism, as well as a crackdown on black money in the country. The move was described as an effort to reduce corruption, the use of drugs, and smuggling. 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

However, in the days following the demonetisation, banks and ATMs across the country faced severe cash shortages. The cash shortages had detrimental effects on a number of small businesses, agriculture, and transportation, while people seeking to exchange their notes had lengthy waits, and several deaths were linked to the rush to exchange cash. Also, following Modi's announcement, the BSE SENSEX and NIFTY 50 stock indices crashed for the next two days.

The demonetisation received support from several bankers as well as from some international commentators, although it was criticised by members of the opposition parties, which led to commotions in both houses of parliament and triggered organised protests against the current government in front of the parliament and elsewhere across India.

**Pros & Cons:** In its statement, the RBI pointed out that currency in circulation plunged by "Rs. 7.4 trillion up to December 2..." and this led to a fall in demand, supply and production. So, clearly, there is a cash crunch. And there could be just one solution to ensure that the economy does not suffer for too long: supply of more cash in the market. How about this for a solution: since most of the currency in circulation is already in the banks-and not lying buried under pillows or being thrown into the Ganges-why not introduce the old Rs. 500 currency notes back into the market, make them legitimate tender again?



One of the reasons behind the withdrawal of the notes of higher denominations was that it was expected that a large amount of cash would not return to the system. But, as several reports have pointed out, most of the nearly Rs. 14.5 lakh crore of the demonetised money that was in circulation will soon be deposited in banks.

Experts would continue to debate the gains from demonetisation for a long time. Some would argue that it has failed because people found a way to bring money back into the system, denying the RBI a windfall through extinguished currency. Others would claim that since the money has come back into the system, it can be taxed and used by banks for cheaper loans. But the gains through enforcement of tax laws, experts contend could be slow and may not be able to offset the disruptive cost of demonetisation, leading to a net loss to the economy.

But, what is clear by now is that the currency notes, especially the Rs. 500 notes, can be easily used after withdrawal from banks once the full currency in circulation gets deposited; there is very little left in the market. It can be safely deployed to cover the shortfall in supply. This will serve two purposes: one, immediately improve liquidity; two, minimise government cost on printing and distribution of new notes.

In fact, given that almost all the notes have now reached the banks, even the Rs. 1,000 notes could have been put back into circulation. But, since they have already been supplanted by Rs. 2,000 notes, their absence won't hurt the system much. Also, it is clear that fears of counterfeit currency flooding the Indian

market were a bit exaggerated. Different estimates put the value of counterfeit notes to just around Rs. 400 million, which is just a fraction of the currency in circulation. So, reintroducing old Rs. 500 notes, especially when they would now be filtered through banks, would not hurt the Indian economy.

Several banks, including the State Bank of India (SBI), have been complaining that the increase in deposits would hurt them unless there is adequate compensation. And since the RBI has disallowed them from using the excess cash through a hike in Cash Reserve Ratio (CRR)-a specified minimum fraction of the total deposits of customers, which commercial banks have to hold as reserves either in cash or as deposits with RBI-banks are complaining that they would have to pay interest on these deposits without deploying them in the market for returns. Obviously, if the curbs on withdrawals are lifted, banks too stand to gain.

Though pragmatic, the reintroduction of the old Rs. 500 notes to address the cash crunch would, of course, be seen as a rollback. And, in the context of the heavily politicised debate around demonetisation, which is looking more and more like currency exchange now, the Narendra Modi government would see it as acceptance of failure of the demonetisation policy.

**Loopholes and remedies:** There are some obvious loopholes before and after demonetisation. Some of the most important of them are: 1. The usage of debit/credit card is not enforced by the government at least at the points of travel i.e. airports, railways, state road transports, and petrol bunk, govt. / semi govt. bodies to receive money. If it would



have been implemented there would be no pathetic situation for the people in travel in midnight of 8<sup>th</sup> November' 2016.

2. In the pretext of IT/Commercial Department all the jewellery shops could have been sealed in the evening of the day of declaration of demonetisation; as it was not done, a large chunk of the black money became white gold money in the same fateful night, shameless to the planners and advisors to the scheme of the demonetisation. 3. The new currency of Rs. 2000 denomination was exchanged with the old demonetised Rs. 500 and Rs. 1000 in the midnight and the day after with the collusion of Bank managers and the officials of Post offices, Road Transport Corporations of State Governments, money receiving agencies of State Governments which can officially deposit all the demonetised notes, received unduly for exchange from by influential people like politicians and big business people, tuning to thousands/lakhs of crores of rupees which is evidenced by the new currency found in the recent raids conducted by IT department which is just a tip of iceberg of the whole fraudulence allowed by non-planning/recklessness of the government. 4. Farmers are now getting the money for the sale of their produce in their Bank accounts only; as such they have money but the Banks are not giving currency to them as there is severe crunch of currency. If the farmers can't get currency they could not go ahead for the next crop because they have to pay money to the menial labour in currency only, if not for fertilizers/pesticides. 5. Only a small percent of ATMs are functioning to make common people stand in long queues for long hours

resulting in despair as ATMs will be out of money in just a few hours.

As the saying goes, 'All is well if the end is well', it would be well for the intended intentions if prudent and practical solutions to alleviate the problems of common people are found and implemented by the government.

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## Demonetization Consequences – 2016

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**Abstract:** The process of demonetisation involves either introducing new notes or coins of the same currency or completely replacing the old currency with new currency. It is an economic term which is used to mean the 'scrapping of old currency notes and stripping off their status of legal tender, usually when a new currency note or currency is being introduced in the economy of the country.

**Key Words:** Demonetization, Scrapping, Dizzy, Card transaction.

### Introduction

Indian rupee has been demonetized various times as well. The rupees 10,000 notes were demonetized once in January 1946 and then again in January 1978. Recently, the rupees 500 and 1,000 notes were demonetized in a surprise move on November 8, 2016. From midnight of 8<sup>th</sup> November' 2016 in our country the units of higher denominations Rs. 500 and Rs. 1000 banknotes of the Mahatma Gandhi Series were demonetised. Demonetisation is necessary whenever there is a change of national currency. The recent scrapping of Indian 500 and 1,000 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. 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 decisive strike against the black being hoarded by the citizens of the country. The aftermath of demonetization of Indian currency the move of the Government received both praises and severe criticisms from every section of the society. Because the

immediate effect of the announcement saw countrymen lining up at the ATM's to withdraw 100 rupee notes to tide over the impending cash crunch.

### Advantages of Demonetization

Demonetization is done in a proper way there are many advantages like

1. 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 difficult to find and when demonetization happens all that cash is of no value.
2. 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.
3. 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 betterment of society by providing good infrastructure, hospitals, educational institutions, roads





and many facilities for poor and needy sections of society. Capital will be available at cheap rates thereby making Indian goods cheaper.

4. The Hawala industry which adjusted the cash at place against cash at another place has collapsed.

5. The Pakistan sponsored machinery of printing of fake notes and it's induction in Indian economy, will be destroyed on its own.

6. The political parties who believed on purchasing notes from voters will now need to gain votes on merits and performance.

7. The Educational mafias can not ask heavy donation for admission in school and colleges.

8. The crime against the women in domestic world will reduce.

9. The foreign investment will increase and the demonetization will be followed by tax simplification.

10. The quality of public works in government and municipal projects will increase by 30% as the bribes money will be absent thereby improving the standard.

11. The decision on awarding contracts will be faster as there would not be need of giving donations to political parties.

12. The smugglers will find it difficult to sell in cash the goods. The contract killings will be reduced as the contract money will leave an evidence for cops.

13. The environment mafias destroying man groves, illegal mining, sand exploration, tree cutting, hooch making will stop as they would not have money to bribe the officials.

**Disadvantages:** It will cause great inconvenience to common man who will

start running to bank to exchange Rs. 500 and 1,000 notes.

1. By replacing all the 500 and 1,000 rupees denomination notes, as ordered by the government, could cost the RBI at least Rs.12, 000 crore.

2. It will be very difficult for half of the population who are not well versed with the card transactions.

3. 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.

*Let's all join together in this mission to take India to the next level and dream of Digital India.*

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## Demonization - Cashless Payment System in India

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**Abstract:** The costs of the debit and credit card system are passed on to the merchants who accept card payments. In the present scenario, credit card is a mode of payment that is an alternative to cash. Credit card offers free credit, bears risk, and thus is an expensive payment mode. However, the product design and promotions are such that the pricing is kept hidden and the users are oblivious of the fact that the cost is ultimately borne by them. Debit card is another alternative to cash. Though this mode of payment offers no credit, carries no or minimal risk it has still been priced at par with the credit card by the banks- a price that is borne by the cardholder.

**Key words:** payment system, pin-based debit cards, circulation

### 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 8th of November 2016. People have been given upto December 30, 2016 to exchange the notes held by them.<sup>1</sup> 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 since there are limits placed on the amount that individuals can withdraw. In the months to come, this squeeze 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”.

The card based payment system includes the card companies (switch provider), banks (acquirer and issuer), merchants and cardholders, and cannot function in absence of any of these players. It is seen that though card based payment systems have been in vogue for several years, its use and popularity is still very limited. There are 190 lakh credit and 1,900 lakh debit cards in the system, but there are just 11 transactions per credit card and one transaction per debit card annually. To locate the reasons for the subdued transition to cashless payments, this study carries out a review of the roles performed by various players of the system and then arrives at a structured and implementable roadmap to move towards a cashless retail payment system in India. B. Present scenario

In the present scenario, credit card is a mode of payment that is an alternative to cash. Credit card offers free credit, bears risk, and thus is an expensive payment mode. However, the product design and promotions are such





that the pricing is kept hidden and the users are oblivious of the fact that the cost is ultimately borne by them.

Debit card is another alternative to cash. Though this mode of payment offers no credit, carries no or minimal risk it has still been priced at par with the credit card by the banks- a price that is borne by the cardholder.

The costs of the debit and credit card system are passed on to the merchants who accept card payments. Such expenditures for the merchants can be as high as 50% of their profits. There are two options for the merchant- (i) if he is not allowed to surcharge; he passes this cost to his product price. The card user, who ultimately bears the cost, is not able to feel this hidden price adjustment upfront. (ii) If on the other hand, the merchant is allowed to surcharge or offer discounts for cash, the card user prefers to use cash instead leading to a payment by an inefficient mode. C. Drawbacks of the present system

The oblique pricing structure that treats and prices the credit and debit card in a similar manner has several drawbacks that hinder its growth / popularity and some features of the product even cause potential risk to the users. We list few of the drawbacks.

**Under utilisation of debit cards:**

Though the number of debit cards is currently 10 times higher than the credit cards, the average number of transactions per debit card is 10 times less. On an average, the debit and credit cards together account for only two card transactions per day per POS terminal.

**Lower acceptability of cards by merchants:** The unreasonable pricing of debit cards is a disincentive for small and medium merchants, who have less pricing power due to their low volumes, to transit to card based payments.

**Increase in cost of currency management:** In India, card transactions at POS have been only about 5% of retail sales. This large cash dependence (95% of retail sales) imposes huge pressures on currency management.

**Lack of accountability:** Predominance of cash in retail sales leads to deterioration in business accountability as transaction tracking is not possible, it enables tax leakage, diminishes financial inclusion and enables existence of a parallel economy.

**Potential of fraud:** There is greater risk attached to debit cardholders in case of fraud as cardholder is deprived of the money. Currently banks offer either pin-based or signaturebased debit cards. As a lost or stolen debit card is useless without its PIN, consumers usually prefer pin-based debit cards. D. Proposed action There is a need for RBI to subsidize switch charges, to promote cashless payments.

The pin-based debit cards are more secure than signature-based debit cards. Since all existing debit cards (signature-based or pin-based) are already associated to a PIN, in order to mitigate risk, appropriate regulatory measures should be put in place to make all debit card transactions at POS pin-based. This will use the already existing resources and technology.



Given the cost and risks involved in handling cash, banks need to favourably price electronic products and a situation where electronic products are costlier than paper products should not arise. Thus, to glide through from cash based to card based products, our analysis suggests the MDR\* on debit card could be kept at 0.2% with a cap of ₹ 20.

The credit card is a frilled product since it provides quick credit. The interchange on credit cards should therefore best be left to the issuer banks and competition should dictate the pricing in consonance with RBI's general policy on non-priority sector personal loans. The interchange, currently being borne by merchants, forms a part of the MDR. In order to provide a level playing field, it is recommended that the merchants should be given the freedom to surcharge on credit cards.

In order to ensure that the freedom provided to merchants to surcharge does not lead to a kill for card based payment system (by disincentivising card users), it is recommended that the no-surcharge rule be applied strictly to no-frill debit cards.

In order to provide convenience to both merchants and cardholders, cash withdrawal at POS should be clubbed along with purchase so as to reduce costs and increase efficiency in cash handling.

The usage of no-frill debit cards should be encouraged. In order to educate people on the advantages of debit cards over cash, RBI should organise focused financial education campaigns among merchants and cardholders.

The Government may also consider promoting avenues where tax benefits are provided to merchants for accepting card based payments, e.g. an appropriate tax rebate can be extended to a merchant if at least 50% value of his transactions are through cards. The government should minimize, if not eliminate, the duties and taxes on manufacture and sale of EDC machines to promote its acceptability.

Mobile phones are expected to come up with embedded debit cards akin to other utilities like camera, radio, alarm clock, etc. Similarly, normal and GPRS EDC machines will get replaced by mobile phones with EDC capabilities. The mobile phone debit cards and EDC enabled mobile phones could be linked to one's bank account just like an ordinary debit card / EDC machine and can be used for retail payments.

Prepaid debit card is a debit card that is not linked to a regular bank account, but where the consumer instead pays a bank or merchant ₹ x (plus fees) and is given a debit card that can draw on up to ₹ x. Banks should be encouraged to issue prepaid and reloadable debit cards to non-customers. If the retail stores intend to issue their own prepaid debit cards to their customers for use in their stores, such cards should have a bank guarantee. E. Benefits of the proposals

**Benefit of no-frill debit cards:** A simple debit card, equivalent to an electronic cheque, is a basic banking service for the customers and merchants alike. Any frill attached to such cards by the banks has a cost which is ultimately borne by merchants and consumers. The incentives on no-frill debit card to end



users are (i) convenience of cashless settlements for merchants and customers alike, (ii) reduction in the demand for cash, (iii) quicker and secured transfer of sale proceeds to merchant's account, and (iv) cardholders earning interest on a daily basis by deferring withdrawal till the money is actually required at the POS.

**Benefit of reduced price to consumers:** With the proposed pricing structure of having an MDR of 0.2% with cap of ₹ 20, it is expected that most merchants would pass on the reduced costs directly to their shoppers in the form of lower prices and the consumers will directly benefit from the reductions on debit interchange fees.

**Benefit to currency management:** Card transactions at POS account for about 5% of retail sales in India. Thus, with costs for printing banknotes being of the order of ₹ 2,800 crore annually, card usage at POS leads to about ₹ 140 crore of savings in currency management. Every additional 1% increase in the use of cards in retail sales, will lead to a ₹ 28 crore savings in note printing cost (excluding the huge costs incurred for secured transportation, counterfeit detection / prevention, etc.).

**Benefit of pin-based debit cards:** With a view to reduce instances of misuse of lost / stolen cards, one can consider (i) cards having photograph of the cardholder and (ii) debit cards which are only pin-based. Usually, consumers prefer pin-based (over signature-based) debit cards since it is perceived to offer greater security. Also, there is greater risk attached to debit cardholders in case

of fraudulent use as the cardholder is deprived of the money.

**Benefit of electronic information:**

The information generated through card payments would help track transactions, check tax avoidance / fraud etc., enhance financial inclusion and integrate the parallel economy with main stream. As the card usage gains popularity into the hinterland, the system will generate huge volumes of data on the spending behavior of persons in these areas. This information will help the Government in designing products that meet the spending behavior of individuals. Over time when card payments grow and represent a significant part of retail sales, the card payments data could also be used as a quick estimate of private consumption.

**Conclusion**

Benefit of mobile and prepaid debit cards: The easy to obtain prepaid debit cards have immense potential in a cashless payment system e.g. it is a method of 'banking' the unbanked, a means of giving electronic cash, as a method of giving cash gifts, etc. The prepaid cards can be used at any merchant establishment which accepts debit cards. Similarly, the mobile phone embedded debit cards and EDC enabled mobile phones can be used for cashless retail payments. F. Concluding remark

The report's recommendations will lead to a transition from the expensive and trusted credit card system to a need based debit card system which is optimal for the economy and beneficial to the end users (merchants and consumers). It is time that the



artificial tilt that has been in existence for the benefit of the providers (banks and switch providers) at the cost of the users gives way to a rationalized system.

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## Demonetisation and Cashless Economy

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**Abstract:** Cash is definitive in nature and cash exchange carries with it the writ of the country to even the most remote locations. Informal sector is the largest employer in India and runs on cash primarily. It also means that cash transactions on their own are not the generators of black wealth. It is a highly advanced and dynamic manner of doing business refined over centuries. Already there are reports that in the slow demonetisation process, there are people like farmers and traders that are forced to transact with old currency. Massive amount of currency has been sucked out of the system and lack of assured transaction systems for rural pockets and informal sector will likely add to the woes.

**Key words:** rural pockets, denomination currency, cashless economy

### Introduction:

Demonetisation of high denomination currency notes of Rs 500 and Rs 1,000 has proved to be an experiment too risky for the government and too testing for the general public. The Centre is making a big push for online and card-based transactions in the country to achieve its target of becoming a largely cashless economy. However, it seems the country is not ready for such an immediate shakeup.

### Government encourage cash less transactions:

DEA secretary Shaktikanta Das on Wednesday announced incentives like cutting down on service charge and other levies on debit/credit card transactions. The government's initiatives over the past year or so have been focused on promoting e-payments, plastic transactions, cashless payments. It is, indeed, the future for the Indian economy.

The question, however, remains whether India is ready for such an

overhaul of its cash-driven economy. RBI figures for July 2016 show that banks had issued 697.2 million debit cards and 25.9 million credit cards to customers after deducting withdrawn or cancelled cards.

The number is huge. However, cards on own can't turn the economy into a cashless one. It is important note that the number of cards is does not equal number of individuals holding the cards. Usually urban residents have multiple cards and the trend is seen now in rural areas as well. Further, cards are used 3 primary purposes-withdrawing money from ATMs, making online payments and swiping for purchases or payments at point of sale (POS) terminals at merchant outlets like shops, restaurants, fuel pumps etc.

A report by Google India and Boston Consulting Group showed that last year around 75 per cent of transactions in India were cash-based while in developed countries like the US, Japan, France, Germany etc it was around 20-25 per cent. Due to demonetisation business for mobile or e-



wallet companies has boosted by up to 4 times and the figures are keeping up.

Much of the cash transactions in the country are small exchanges for goods or services and the penetration of PoS terminals is not enough. Millions of people still don't have a bank account, access to PoS sale points, internet or infrastructure to understand and use online payment methods etc. So we need a large scale penetration of digital services and PoS terminals to facilitate digital transactions in small towns, rural areas, and untapped markets in urban India.

There are at least 1.45 million PoS terminals installed by banks across the country with over 2 lakh ATMs. But, the retail locations for PoS transactions is nowhere near to the over the counter cash transactions.

Spending habits also say a lot. In July this year, 881 million transactions were made using debit cards at ATMs and PoS terminals. Out of these, 92 per cent were cash withdrawals from ATMs. The principal purpose for cards in Indian setup is thus a means to withdraw cash.

Another big hurdle is unachieved targets for digital India. Mobile internet penetration is crucial into deeper pockets since PoS works over mobile internet connections. Earlier banks used to charge money on card-based transactions which has now been pointed out as a hurdle. Also, the low literacy rates in rural areas along with lack of internet access or even basic utilities in many places, it becomes very difficult for people to adopt the habit for digital transactions.

Cash is definitive in nature and cash exchange carries with it the writ of the country to even the most remote locations.

Informal sector is the largest employer in India and runs on cash primarily. It also means that cash transactions on their own are not the generators of black wealth. It is a highly advanced and dynamic manner of doing business refined over centuries.

Already there are reports that in the slow demonetisation process, there are people like farmers and traders that are forced to transact with old currency. Massive amount of currency has been sucked out of the system and lack of assured transaction systems for rural pockets and informal sector will likely add to the woes. On realistic estimates, it seems the government will take at least 2-3 quarters to restore favourable liquidity in the system. Meanwhile, the informal sector remains under threat of moving to a parallel black economy for coming weeks.

People in urban areas are largely troubled as apart from the cash crunch, the budgets and finances of households are hit. Merchants insist on minimum amount transactions for PoS sale or online payments. Further, they add various taxes and levies, delivery charges etc. Articles bought online may be sold expensive with low quality but as there is a cash crunch people are forced to buy them. Small transactions and daily expenses are massively hit and plastic is no substitute for planned expenditure using cash.

**Conclusion:**

Till the time this penetration for online payments doesn't reach local stores, the transition will never be truly effective. For now it seems, the country is on the track to development but is rather hurriedly pushed into the reform.



Finally, financial security over the digital payment channels is imperative for pushing the cashless economy idea. When recently, data of lakhs of debit cards was rather easily stolen by attackers, the ability of Indian financial institutions to safeguard electronic currency and exchanges came into question. Also a big reason why people prefer cash as financial fraud has become too common and complicated for the common person

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## Cashless Payment System in India

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**Abstract:** The card based payment system includes the card companies (switch provider), banks (acquirer and issuer), merchants and cardholders, and cannot function in absence of any of these players. It is seen that though card based payment systems have been in vogue for several years, its use and popularity is still very limited. There are 190 lakh credit and 1,900 lakh debit cards in the system, but there are just 11 transactions per credit card and one transaction per debit card annually. To locate the reasons for the subdued transition to cashless payments, this study carries out a review of the roles performed by various players of the system and then arrives at a structured and implementable roadmap to move towards a cashless retail payment system in India.

**Key words:** currency management, surcharge, alternative to cash

### Introduction

In the present scenario, credit card is a mode of payment that is an alternative to cash. Credit card offers free credit, bears risk, and thus is an expensive payment mode. However, the product design and promotions are such that the pricing is kept hidden and the users are oblivious of the fact that the cost is ultimately borne by them. Debit card is another alternative to cash. Though this mode of payment offers no credit, carries no or minimal risk it has still been priced at par with the credit card by the banks- a price that is borne by the cardholder. The costs of the debit and credit card system are passed on to the merchants who accept card payments. Such expenditures for the merchants can be as high as 50% of their profits. There are two options for the merchant- (i) if he is not allowed to surcharge; he passes this cost to his product price. The card user, who

ultimately bears the cost, is not able to feel this hidden price adjustment upfront. (ii) If on the other hand, the merchant is allowed to surcharge or offer discounts for cash, the card user prefers to use cash instead leading to a payment by an inefficient mode.

### Drawbacks of the present system

The oblique pricing structure that treats and prices the credit and debit card in a similar manner has several drawbacks that hinder its growth / popularity and some features of the product even cause potential risk to the users. We list few of the drawbacks.

**Under utilisation of debit cards:** Though the number of debit cards is currently 10 times higher than the credit cards, the average number of transactions per debit card is 10 times less. On an average, the debit and credit cards together account



for only two card transactions per day per POS terminal.

**Lower acceptability of cards by merchants:** The unreasonable pricing of debit cards is a disincentive for small and medium merchants, who have less pricing power due to their low volumes, to transit to card based payments.

**Increase in cost of currency management:** In India, card transactions at POS have been only about 5% of retail sales. This large cash dependence (95% of retail sales) imposes huge pressures on currency management.

**Lack of accountability:** Predominance of cash in retail sales leads to deterioration in business accountability as transaction tracking is not possible, it enables tax leakage, diminishes financial inclusion and enables existence of a parallel economy.

**Potential of fraud:** There is greater risk attached to debit cardholders in case of fraud as cardholder is deprived of the money. Currently banks offer either pin-based or signaturebased debit cards. As a lost or stolen debit card is useless without its PIN, consumers usually prefer pin-based debit cards.

#### **Proposed action**

There is a need for RBI to subsidize switch charges, to promote cashless payments. The pin-based debit cards are more secure than signature-based debit cards. Since all existing debit cards (signature-based or pin-based) are already associated to a PIN, in order to mitigate risk, appropriate regulatory

measures should be put in place to make all debit card transactions at POS pin-based. This will use the already existing resources and technology.

Given the cost and risks involved in handling cash, banks need to favourably price electronic products and a situation where electronic products are costlier than paper products should not arise. Thus, to glide through from cash based to card based products, our analysis suggests the MDR\* on debit card could be kept at 0.2% with a cap of ` 20.

The credit card is a frilled product since it provides quick credit. The interchange on credit cards should therefore best be left to the issuer banks and competition should dictate the pricing in consonance with RBI's general policy on non-priority sector personal loans. The interchange, currently being borne by merchants, forms a part of the MDR. In order to provide a level playing field, it is recommended that the merchants should be given the freedom to surcharge on credit cards.

In order to ensure that the freedom provided to merchants to surcharge does not lead to a kill for card based payment system (by disincentivising card users), it is recommended that the no-surcharge rule be applied strictly to no-frill debit cards

In order to provide convenience to both merchants and cardholders, cash withdrawal at POS should be clubbed along with purchase so as to reduce costs and increase efficiency in cash handling.



The usage of no-frill debit cards should be encouraged. In order to educate people on the advantages of debit cards over cash, RBI should organise focused financial education campaigns among merchants and cardholders.

The Government may also consider promoting avenues where tax benefits are provided to merchants for accepting card based payments, e.g. an appropriate tax rebate can be extended to a merchant if at least 50% value of his transactions are through cards. The government should minimize, if not eliminate, the duties and taxes on manufacture and sale of EDC machines to promote its acceptability.

Mobile phones are expected to come up with embedded debit cards akin to other utilities like camera, radio, alarm clock, etc. Similarly, normal and GPRS EDC machines will get replaced by mobile phones with EDC capabilities. The mobile phone debit cards and EDC enabled mobile phones could be linked to one's bank account just like an ordinary debit card / EDC machine and can be used for retail payments.

Prepaid debit card is a debit card that is not linked to a regular bank account, but where the consumer instead pays a bank or merchant ₹ x (plus fees) and is given a debit card that can draw on up to ₹ x. Banks should be encouraged to issue prepaid and reloadable debit cards to non-customers. If the retail stores intend to issue their own prepaid debit cards to their customers for use in their stores, such cards should have a bank guarantee.

### Benefits of the proposals

Benefit of no-frill debit cards: A simple debit card, equivalent to an electronic cheque, is a basic banking service for the customers and merchants alike. Any frill attached to such cards by the banks has a cost which is ultimately borne by merchants and consumers. The incentives on no-frill debit card to end users are (i) convenience of cashless settlements for merchants and customers alike, (ii) reduction in the demand for cash, (iii) quicker and secured transfer of sale proceeds to merchant's account, and (iv) cardholders earning interest on a daily basis by deferring withdrawal till the money is actually required at the POS.

Benefit of reduced price to consumers: With the proposed pricing structure of having an MDR of 0.2% with cap of ₹ 20, it is expected that most merchants would pass on the reduced costs directly to their shoppers in the form of lower prices and the consumers will directly benefit from the reductions on debit interchange fees.

Benefit to currency management: Card transactions at POS account for about 5% of retail sales in India. Thus, with costs for printing banknotes being of the order of ₹ 2,800 crore annually, card usage at POS leads to about ₹ 140 crore of savings in currency management. Every additional 1% increase in the use of cards in retail sales, will lead to a ₹ 28 crore savings in note printing cost (excluding the huge costs incurred for secured transportation, counterfeit detection / prevention, etc.).



Benefit of pin-based debit cards: With a view to reduce instances of misuse of lost / stolen cards, one can consider (i) cards having photograph of the cardholder and (ii) debit cards which are only pin-based. Usually, consumers prefer pin-based (over signature-based) debit cards since it is perceived to offer greater security. Also, there is greater risk attached to debit cardholders in case of fraudulent use as the cardholder is deprived of the money

Benefit of electronic information: The information generated through card payments would help track transactions, check tax avoidance / fraud etc., enhance financial inclusion and integrate the parallel economy with main stream. As the card usage gains popularity into the hinterland, the system will generate huge volumes of data on the spending behavior of persons in these areas. This information will help the Government in designing products that meet the spending behavior of individuals. Over time when card payments grow and represent a significant part of retail sales, the card payments data could also be used as a quick estimate of private consumption.

Benefit of mobile and prepaid debit cards: The easy to obtain prepaid debit cards have immense potential in a cashless payment system e.g. it is a method of 'banking' the unbanked, a means of giving electronic cash, as a method of giving cash gifts, etc. The prepaid cards can be used at any merchant establishment which accepts debit cards. Similarly, the mobile phone embedded debit cards and EDC enabled

mobile phones can be used for cashless retail payments.

### Concluding remark

The report's recommendations will lead to a transition from the expensive and trusted credit card system to a need based debit card system which is optimal for the economy and beneficial to the end users (merchants and consumers). It is time that the artificial tilt that has been in existence for the benefit of the providers (banks and switch providers) at the cost of the users gives way to a rationalized system

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## Demonetization on Indian Currency Note Effect Indian Economy

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**Abstract:** Despite possessing legal earnings, Indians (Mostly in rural areas) accumulate their makings either at their home or lend them to the nearby surroundings. Even in the 21st century, when the banking network has spread more or less in every small area, money lending, the oldest form of business, is still effective in many areas, which is not only affecting the registered bank's business but also unaware to the bank. Absence of intermediate denominations like Rs 500 and Rs 1000 will reduce the utility of Rs 2000. Effectively, this will make Rs 2000 less useful as a transaction currency though it can be a store value denomination.

**Key words:** demonetization, quilt trader, unemployment,

### Introduction

The demonetization of INR 500 and INR 1000 Indian Currency Note has come as a surprise to everybody. Whatever change is going to happen, but, this is the first time in my life when I have sensed that a person who is living on his liabilities, honesty and morality is feeling safe in this country. "Honesty is the best policy", the saying, in fact, is now making much sense for the Indians.

A similar situation prevails with the world-renowned. "Our trade has seen a sharp decline of almost 60-70 per cent as our quilts were bought mainly by tourists — and now they do not have cash," said a quilt trader in the city. Common people are ready to stand in long queues for the growth of our country and to curb the black money. When we run out of cash, forcibly it drives us to pay through our credit/debit cards. When usage of cards increases; cash exchanges reduces further. It founds to be true, When a reputed E-Commerce giant records

unprecedented growth in retail transactions following demonetization.

Absence of intermediate denominations like Rs 500 and Rs 1000 will reduce the utility of Rs 2000. Effectively, this will make Rs 2000 less useful as a transaction currency though it can be a store value denomination.

Now, talking about black money basically found in large digits i.e. crore or more than it undoubtedly carry INR 500 and INR 1000 currency notes, acquired through unrecognized or illegal ways, has no option other than to be destroyed or to be deposited. But, for considering the second option, they have to disclose it as legal income and have to pay heavy tax on it. No matter, if they found a way to make their income legal or they just get frightened, they have to pull out all the money that is not under the account of Indian government. Later on, it will help to minimise the total currency circulation in the Indian economy. As the currency circulation will be reduced, the inflation



rate will also become negative, it is known as deflation. Although, deflation leads to unemployment problem, it increases the **internal value** of money as well. However, it always circulates with time and demand, so how much demand will be increased, the chances of employment and inflation will also be enhanced proportionally.

### Effects of demonetization of Indian Currency Note

Despite possessing legal earnings, Indians (Mostly in rural areas) accumulate their makings either at their home or lend them to the nearby surroundings. Even in the 21st century, when the banking network has spread more or less in every small area, money lending, the oldest form of business, is still effective in many areas, which is not only affecting the registered bank's business but also unaware to the bank.

With these changes, people who have a lot of legally earned cash in their pocket or at home, will have to deposit it in the bank before the date proclaimed by the government. As it is legally earned money, it will surely be deposited in the banks and this will let the banks house surplus amount and margin as well. The demonetization of INR 500 and INR 1000 currency notes is such a positive move for the Indian economy as well a good lesson to those who are playing with Indian taxation policy.

### Exchanging old notes

The Reserve Bank of India laid down a detailed procedure for the exchange of the demonetised banknotes with new 500 and 2000 banknotes of

the Mahatma Gandhi New Series and 100 banknotes of the preceding Mahatma Gandhi Series. 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 were restricted to 10,000 per day and 20,000 per week per account from 10 to 13 November 2016. This limit was increased to 24,000 per week from 14 November.

For immediate cash needs, the old banknotes can be exchanged for the new 500 and 2000 banknotes as well as ₹100 banknotes over the counter of bank branches by filling up a requisition form along with a valid ID proof. This exchange is restricted to once per person. Initially, All ATMS Were Dispensing Banknotes Of Only 50 And 100 Denominations And Cash Withdrawals From ATMS Were Restricted To 2000 Per Day. From 14 November Onwards, ATMS Recalibrated To Dispense New 500 And 2000 Notes Will Allow A Maximum Withdrawal Of 2,500 Per Day, While Other ATMS Dispensing Banknotes Of Only 50 And 100 Denominations Will Allow A Maximum Withdrawal Of 2000 Per Day.

### Objectives

The idea of demonetization is good but it has to be taken into consideration that most of the black money is kept in the form of land, buildings or gold or kept abroad. What is in cash constitutes only 4% of the total amount of black money on which taxes are not being paid. Out of this, a lot of money is in circulation in everyday transaction like if someone is





building a house; the bill is not paid through banks for sand, bricks etc. This money goes into the other systems though it has been drawn from bank.

Small Farmers, Sellers, Merchants, Daily Wage Labourers And Traders Are Suffering Because Of Lack Of Proper Planning, Intelligence And Foresight Such As Recalibration Of ATM Machines. There Was Need To Pile Up Enough 100 Rupee Notes And Other Smaller Denomination Notes In The Market Before Taking This Step. Inflation And Bringing The Black Money From Abroad. Demonetization is an established practice in monetary policy to tackle black money. The Prime Minister has explained why this is a financial surgical strike. It was meant to be suddenly implemented. In the past, demonetization has taken place twice but it fails because the idea is to tackle the black money existing in circulation. This is not tackle corruption per se or the Government is not saying that 100% corruption will be tackled.

### Long- Term Effects

#### Poor Class

This class is affected adversely immediately. This class hardly use 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.

**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.

**Upper Class:** 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.

#### Short-Term Effects:

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. Areas impact will be felt in luxury cars, SUVs, gems, jewellery, gold and high-end branded products .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. .



Liquidity crunch (short term effect): liquidity shock means people are not able to get sufficient volume of popular denomination especially Rs 500. This currency unit is the favourable denomination in daily life. It constituted to nearly 49% of the previous currency supply in terms of value. Higher the time required to resupply Rs 500 notes, higher will be the duration of the liquidity crunch. Current reports indicate that all security printing press can print only 2000 million units of RS 500 notes by the end of this year. Nearly 16000 MN Rs 500 notes were in circulation as on end March 2016. Some portion of this were filled by the new Rs 2000 notes.

### **Effect on Banks**

As directed by the Government, the 500 and 1000 Rupee notes which now cease to be legal tender are to be deposited or exchanged in banks (subject to certain limits). This will automatically lead to more amounts being deposited in Savings and Current Account of commercial banks. This in turn will enhance the liquidity position of the banks, which can be utilized further for lending purposes. However, to the extent that households have held on to these funds for emergency purposes, there would be withdrawals at the second stage.

### **Advantages of Demonetization Indian Currency**

It is no doubt a bold step taken by the government which will definitely help India to become corruption-free. Here are some advantages and disadvantages of de-monetization:

### **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.

### **Tax payment**

Most of the businessmen who have been hiding some income are ready to pay advance tax as current year's income. Tax payers who have been hiding some income can come forward to declare income and pay tax on the same. Individuals are required to submit PAN for any deposit above Rs 50,000 in cash, which will help tax department to track individuals with high denominations. Also, deposit up to Rs 2.5 LAKH will not come under Income tax scrutiny.

### **Disadvantages of Demonetization Indian Currency**

It may cause inconvenience for initial few days for those who have to start running to the banks to exchange notes, deposit amount or withdraw the same. The situation can turn chaotic if there is a delay in the circulation of new currency. Individuals who have an upcoming wedding are the ones who have to make alternative arrangements to make payments. However, the government has



given higher withdrawal limit in such cases.

### Cost of currency destruction

After the news, we have seen that many individuals have burnt their cash and discarded the same, which is a loss to the economy. The government has to bear the cost of printing of new currency and its circulation. It makes sense when benefits of demonetization are higher.

**Conclusion:** Only a small portion of black money is actually stored in the form of cash. Usually, black income is kept in the form of physical assets like gold, land, buildings etc. Hence the amount of black money countered by demonetization depend upon the amount of black money held in the form of cash and it will be smaller than expected. But more than anything else, demonetization has a big propaganda effect. People are now much convinced about the need to fight black income. such a nationwide awareness and urge will encourage government to come out with even strong measures.

There are only advantages of demonetization in the long term. The government is taking all the necessary steps and actions to meet the currency demand and ensure the smooth flow of new currency.

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## Impact of recent demonetization in India

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**Abstract** : On 8<sup>th</sup> November 2016, night at 8.15 pm Indian Prime Minister, Sri Narendra Modi declared that Currency notes 500 and 1000 would be invalid from midnight on the same day and he also declared that in exchange of these old notes new notes of 500 and 2000 Mahathma Gandhi Series would be issued and other bank notes 100,50,20,10 would remain as legal tender. This paper is an attempt to focus attention on the practicability of decision by Government of India and its impact on Indian economy and general ongoing life of common man. The incidents that have happened so far are discussed with the help of material facts collected from RBI reports.

**Key words:** demonetization, smuggling, deposit inflows

### Introduction

On 8<sup>th</sup> November 2016, night at 8.15 pm Indian Prime Minister, Sri Narendra Modi declared that Currency notes 500 and 1000 would be invalid from midnight on the same day and he also declared that in exchange of these old notes new notes of 500 and 2000 Mahathma Gandhi Series would be issued and other bank notes 100,50,20,10 would remain as legal tender.

As per the central government, the main reasons behind the present demonetization are to crack down black money, stop funding to terrorism, and reduce corruption and smuggling and control the increasing use of drugs and so on. With whatever intention the government of India enacted the above, even if assumption of consistent benefit in long run is considered, a few following incidental changes have been being activating public to revolt against the decision.

### Objectives of the study

- ❖ To study the concept of demonetization
- ❖ To examine the impact of decision of demonetization on Indian Economy
- ❖ To Analyze the disturbances to general public with the effect of demonetization
- ❖ To understand the performance of electronic payment system during the period post implementation of the decision of demonetization
- ❖ To make necessary suggestions to go for further actions to set right the present complicated scenario

**Data Sources:** The required information for the study is collected mostly secondary data from Reserve Bank of India reports and presented in tables and charts. Researcher collected primary information by an interaction with some business people, daily laborers and employees and got a record of their opinions regarding demonetization.



**Need for study:** As per the announced statement, the decision of demonetization aims at curbing black money, funding to terrorism, smuggling activities. But in practice it appears to be non fulfillment of the above aims and it is creating unhealthy economic atmosphere in the economy and a complete disturbance to move on in day to day life of a common man. It is felt necessary that it is important to study and analyze the present economic situations that are prevailing in the country with the effect of sudden decision of demonetization.

### Historical back ground

As per the history, Demonetization is not first time initiative in India.

- 1946, January, bank notes of 1000 and 10000 rupee notes were withdrawn by Government of India.
- 1954 New notes of 1,000, 5,000 and 10,000 note were introduced.
- 1978, 16 th January, notes of 1,000; 5,000 and 10,000 notes were demonetized by Jantha Government.
- 1912 Central Board of direct Taxes(CBDT) recommended that demonetization of higher value denomination notes is not a correct action to curb black money as black money holders maintain only 6% or less than that in cash form and the remaining in bullion, jewelry and benami prosperities
- 2016,28<sup>th</sup> October The money in circulation in India was Rs 17.77 trillion
- 2016,31<sup>st</sup> March, as per RBI report total bank notes in circulation were Rs 16.42 trillion of which nearly 86% were 500 and 1000 notes.24% of the total 90226 million bank notes were in circulation.

- 2016, November 8 th night at 8.15 pm Indian Prime Minister Mr. Narendra Modi announced demonetization of 500 and 1000 rupee notes.

### Impact of demonetization

RBI launched new 500 and 2000 notes from Thursday. On Thursday before reopening of banks, allover India, huge crowds gathered in very long queued up outside the various banks buildings in almost all places to deposit old notes and to withdraw new notes.

- In a tweet , Shakthi Kantha Das, Economic Affairs Secretary said- " Banks will remain open this Saturday and Sunday and bank staff will do overtime till 9 pm
- RBI Issued an order instructing all the banks to be open on the coming weekend including Sunday.
- IT department has identified very huge deposit inflows into Jandhan Accounts
- Amounts deposited in Jandhan Accounts in between the dates 8-15 in November 2016, Rs 20206 Crore; People deposited 11,347 Crore between 16-22 dates of November in these Accounts. This decelerated to 4,867 Crore during the period in between dates 23-30 of November ,2016 as the Government warned people not to allow their accounts to be misused for converting black money into white.
- Total daily deposit in Jandhan Accounts was Rs 410 Crore on 1<sup>st</sup> December and Rs 389 Crore on 2 nd December 2016
- During the period from November 8<sup>th</sup> to December 2<sup>nd</sup> The



average per Account deposit in Jandhan Accounts is Rs 13,113

- As per estimation, Since November 10<sup>th</sup> Rs 11.85 lakh Crore 500 and 1000 currency notes have been returned into banks in India. All these old currency notes constituted 86% of Rs 14.5 lakh Crore in Circulation.

- After note ban ,more than 220 Crores including Rs 2000 notes were seized in raids

- A decline in spending habits of Indian people is resulting in a big toll on the country's growth and output because consumption makes up 56 % of GDP. The reason behind this is Indian people are highly dependent on cash and less than half of total population only are dealing card dealings

- Real-estate, FMCG and Construction fields got heavily affected as consumers are deferring purchases. It is appearing to be in short term. ( YES Bank Report)

- There are some benefits also like increased financial inclusion, boost in growth due to movement of household savings from physical to financial, decline in inflation due to spending slow down, fiscal discipline from the part of government as there is increased fiscal headroom.( YES Bank Report)

- During the period November 10<sup>th</sup> 2016 and December 7<sup>th</sup> 2016 banks reported that they had issued bank notes worth Rs 4,27,684 Crore to public either over bank counters or through ATMs

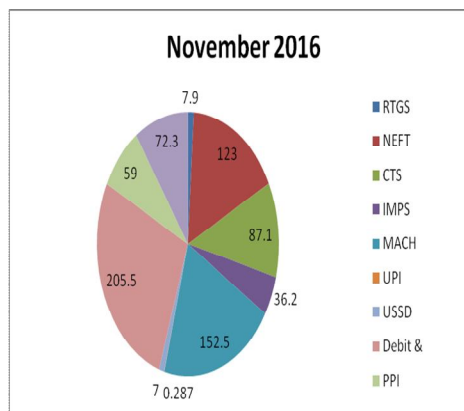
- By following the demonetization announcement the BSE Sensex and Nifty 50 Stock Indices Crashed for the next two d

## Data Analysis

### Source- Reserve Bank of India Reports

- RTGS- Real time Gross Settlement
- NEFT-National Electronic Fund Transfer
- Cheque - truncation System
- IMPS-Immediate payment service
- NACH-National Automated Clearing House
- UPI-Unified Payment Iinterface
- USSD-Unstructured Supplementary Service data
- PPI- Pre paid payment instrument.

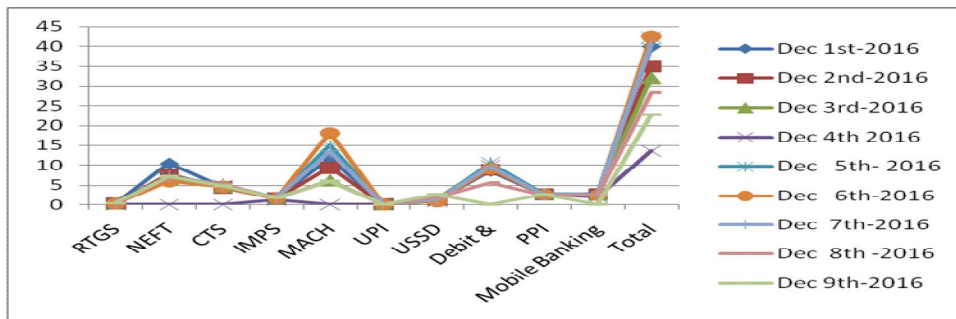
### Electronic Payment Systems (Volume in millions)



Source: RBI Reports

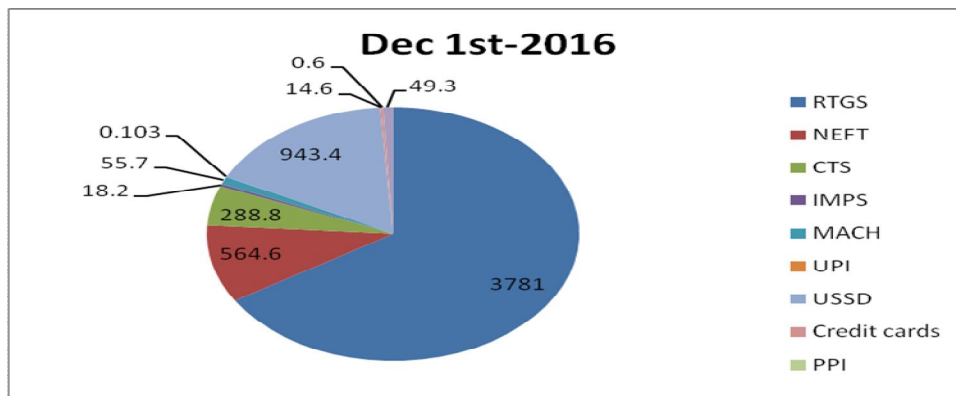


**Electronic Payment Systems (Volume in millions)**



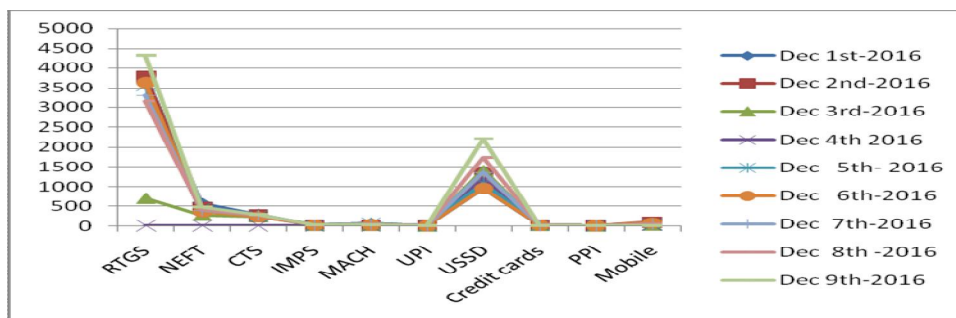
Source: RBI Reports

**Electronic Payment Systems (Value in Rs billion)**



Source: RBI Reports

**Electronic Payment Systems (Value in Rs billion)**







Electronic Payment Systems ( Volume in Million;Value in Rs Billion)										
	November 2016	Dec 1 <sup>st</sup> - 2016	Dec 2 <sup>nd</sup> - 2016	Dec 3 <sup>rd</sup> - 2016	Dec 4 <sup>th</sup> - 2016	Dec 5 <sup>th</sup> - 2016	Dec 6 <sup>th</sup> - 2016	Dec 7 <sup>th</sup> -2016	Dec 8 <sup>th</sup> -2016	Dec 9 <sup>th</sup> -2016
RTGS	7.9	.3	.3	.3	H	.3	.3	.3	.3	.3
	78479.2	3781.0	3784.7	706.0	H	3552.4	3630.4	3300.7	3151.8	4329.5
NEFT	123.0	10.4	7.7	6.4	H	7.0	6.0	7.2	6.9	7.1
	8807.8	564.6	466.6	272.9	H	459.2	350.1	399.0	417.1	473.6
CTS	87.1	4.6	4.4	4.7	H	4.9	4.6	5.2	5.1	4.8
	5419.2	288.8	265.9	231.4	H	247.2	222.7	256.8	256.6	277.5
IMPS	36.2	1.8	1.7	1.7	1.2	1.9	1.7	1.8	1.8	1.8
	324.8	18.2	16.4	15.0	9.0	16.5	14.0	15.5	15.4	15.3
MACH	152.5	11.6	9.4	6.2	H	15.0	18.2	13.5	6.0	6.0
	606.6	55.7	14.5	15.3	H	64.0	21.1	32.0	29.9	17.3
UPI	.287	.029	.035	.035	.027	.035	.042	.048	.053	.053
	.905	.103	.107	.104	.071	.113	.129	.154	.141	.168
USSD	7.0	1.0	1.2	1.4	1.1	.9	.8	1.3	1.8	2.5
	7302.6	943.4	1349.9	1413.9	1198.2	1076.3	943.3	1358.0	1740.3	2220.7
Debit & Credit cards	205.5	8.6	8.9	10.0	9.9	10.5	9.2	9.8	5.5	--
	352.4	14.6	15.3	17.4	15.3	17.5	16.0	17.2	10.6	--
PPI	59.0	2.5	2.6	2.7	2.5	2.7	2.6	2.7	2.5	2.5
	13.2	.6	.6	.6	.6	.6	.6	.6	.6	.6
Mobile Banking	72.3	2.8	2.6	2.6	2.0	2.5	2.5	2.6	2.5	--
	1244.9	49.3	89.1	26.3	11.5	43.8	72.4	44.9	40.8	--
Total	671.5	39.9	35.1	32.0	13.6	42.4	42.6	40.5	28.2	22.7
	94004.2	4723.5	4564.1	1258.5	24.9	4357.4	4254.9	4021.8	3882.2	5114.0

Source: RBI Reports



### Analysis and Interpretation

The above table and Charts are indicating Level of Cashless transactions done in the full month of November and a few days in December, 2016. These are the material facts during the period after the implementation of demonetization. Out of the all means payments through RTGS were the highest in value though the volume appeared to be lower. NEFT was in the next place and UPI in last position with least volume and value.

### Findings

- As per the statement of Prime minister, Demonetization decision aimed at controlling of black money, funding to terrorism, and smuggling.
- With the effect of demonetization day to day life of common people is badly effected
- So far black money only Rs220 crores came into picture.
- The government might have neglected the suggestion of CBDT (1912) which implies 'Black Money or wealth holders maintain 6% or less than 6% of their total wealth in the form of currency and remaining in bullion and benami properties, Demonetization may not be the remedy to control black money'.
- The spending slow down may ultimately result in decline of inflation
- As far as the information till date is concerned, Black money came into light so far is very less and negligible as the black money holders are becoming successful in exchanging their old demonetized currency into new currency in various ways. They are not getting affected but the common man is severely suffering even to pass a day to get his livelihood.

- Cashless transactions are possible to less than fifty per cent population as the remaining people don't have card related transactions and particularly people in rural areas are not updated to this
- As per an estimate nearly 100 people died in queues while trying to take cash from ATMs

### Suggestions

- The government should have examined the past history to understand the success rate of curbing black money by initiation of demonetization before announcing demonetization.
- Though demonetization is to be confidential decision, the pros and cons of implementation should have been analyzed with the help of economists and experts in the fields concerned.
- The supply of currency in 100, 50, 20 and 10 denominations should have been gradually supplied during the period earlier to the announcement of demonetization.
- Necessary steps are to be initiated by the government on war footing basis to set right the present adverse and very painful economic conditions to common man particularly.

### Conclusion

As per an estimate, in India less than half of total population is only using cards and other means of cashless transactions. At this present scenario it is very difficult to follow 100 % cashless transactions all over India. To achieve this drastic decisions and steps are to be taken and it takes much more time. The government is to take initiative to set



right the adverse situations that are prevailing in the country after declaration of the decision of demonetization. According to present scenario it appears that with what hope and expectations demonetization decision is implemented, have not yet been fulfilled. The government is to have a second thought regarding demonetization.

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## The Socio, Economic and Political Impacts of Demonetization in India

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**Abstract:** Demonetization means to withdraw money or the like from use. This means it is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is change of national currency. The old unit of currency must be retired and replaced with a new currency unit. 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. There are multiple reasons why nations demonetize their local units of currency. Some reasons include combating 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. However the demonetization that happened in India will have impact on economic, social and political ramifications, both from immediate and long-term perspectives. The objective of this paper is to analyse the socio, economic and political impacts of Demonetization in India.

**Keywords:** Demonetization, Currency, GDP, Social, economic and political impacts and Corruption.

### Introduction:

Prime Minister Narendra Modi has announced demonetization of high denomination currency keeping in view the manifesto of the party to fight corruption and respecting the sentiments of voters.

India's GDP is \$2,000 billion (Rs 125 lakh crore) and estimated parallel economy is 23 percent, which makes it about Rs. 28 lakh crore. Around 68 percent of that cash is kept in denominations of Rs 500 and Rs 1,000 notes. A back-of-the-envelope calculation shows that Rs 3 lakh

crore or \$45 billion will flow into India's white economy, which is equivalent to GDP of more than 100 countries.

Moreover as per recent estimation only 6% of the black money is kept in the form of cash and therefore much more can be converted and the said objective of the Government may not be achieved. Earlier also demonetization was implemented in nine countries and failed to achieve the desired objectives of curbing the black money in majority of cases.

**Objective of Demonetization:** The objective behind demonetization is to



force those who have hoards of black money to deposit it in banks. The objective is laudable because black money is used to fund terrorism of various forms to weaken economy.

Only 5 percent of Indian Workers pay income tax, just 15 percent of the economy is inside the tax net and India's tax to GDP ratio at 17 percent is 5 points lower than comparable countries.

### **The Socio, Economic and Political Impacts of Demonetization in India:**

India is the fastest growing economy of the world a small Current Account Deficit, sufficient fiscal space, low inflation, and rising foreign exchange reserves. 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 will abridge 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.

The demonetization that happened in India will have impact on economic, social and political ramifications, both from immediate and long-term perspectives. The impact of this move includes:

#### • **Financial/business impact:**

- Banks will be having a tough time. They will be flooded with cash.
- Real estate prices will fall and the transactions volume will drop.
- 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.
- Second hand car market will cash badly.
- Online companies are having the last laugh as most of the white income class is resorting to online.
- CAs will be having a time of their lives.
- Small/medium sized businesses relying on cash transaction are seeing a total demand collapse.
- Gem and jewelry business will be hard hit.

#### **Political Impact:**

- No cash doles out in elections. Whole electioneering will change forever.
- Normal life may be impacted because of demonstrations.
- All parties will join hands to paint the demonetization scheme as a big scam.

#### • **Social Impact:**



- The society will become more equitable with lesser class distinction.
- Politics may change forever.
- Cashiers and bankers will get due respect in society.
- People now know moral status of their peers and neighbors better.
- Low-income people have been impacted as their payments are delayed.
- Some people may commit suicide.
- Big blow to gambling.
- **Impact on Indian economy:**
- GDP will be impacted as consumption will fall – Indirect tax collection may be lower.
- Disorganized work to move to organized sector.
- Demonetization may benefit India in long term:
  - Income taxes rates may come down
  - Loans will become cheaper
  - Housing will become affordable

unchallenged for next half a century. Hence, despite pain, the country is unified in this rare opportunity, to cleanse the economy from cancer of corruption, on its way to become a superpower.

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#### Conclusion:

The idea of demonetization is good but it has to be taken into consideration that most of the black money is kept in the form of land, buildings or gold or kept abroad. What is in cash constitutes only 4% of the total amount of black money on which taxes are not being paid. Out of this, a lot of money is in circulation in everyday transaction like if someone is building a house; the bill is not paid through banks for sand, bricks etc. This money goes into the other systems though it has been drawn from bank. These things will come under control with this step.

In fact, India with nearly 60% of population below 35 years will be



## Impact of Demonetization of 1000 & 500 notes on Indian Economy

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**Abstract:** Indian Government has attacked on people with black money through the surgical strike by demonetizing the old currency notes but this also causes inconvenience to common people across the nation. In this scenario, businessmen and industrialists need to be very careful. India is a country with cash economy. Most of the people have savings of Rs.500 in home to cope up with daily needs and to tackle some emergency situations. On November 8th 2016, the Prime Minister Narendra Modi declared the invalidation of Rs.500 and Rs.1000 notes as a measure to curb fake currency circulation, black money and corruption. People were asked to deposit their old notes in banks and get new Rs.500 and Rs.2000 notes. People are struggling to get money in smaller denomination, as none of the shopkeepers neither have change nor give change.

**Keywords-** cash economy, demonetization, black money, corruption, fake currency

### Introduction:

Quashing of currency status of the country through a profound monetary step as a legal tender is referred as demonetization. The demonetization of the year 2016 in India is an attempt to curb fake notes and black money by reducing the flow of cash in the system. The year 1946 was the first time when demonetization was introduced by Reserve Bank of India to demonetize Rs.1000 and Rs.10,000 notes. Then new notes of denomination Rs.1000, Rs.5000 and Rs.10,000 were introduced in the year 1954. Then the Moraji Desai government in 1978 demonetized these notes.

Any person/business accepting cash currencies will directly suffer especially poor. In fact those who use their service i.e. common man will suffer the most for few days due to non-availability of lower denominations.

However this won't last longer as banks would be offering extended working hours in addition to working on Saturday and Sunday to ease common man's pain. Almost every local grocery vendor in India accepts cash currencies. So naturally they won't be accepting these two currency notes. And this has been noticed right from day 1. No one is ready to accept the currencies except Rs. 100 and lower denominations. So anyone buying grocery will have to either buy them on credit or give small denominations.

**Transportation:** We all use some form of transportation everyday mainly – auto rickshaw, taxi, buses, cycle rickshaw. All this business will be hit for a day or two especially those who commute longer distances and payment amount is above Rs. 500. So either commuter has to provide smaller denominations or else do not travel or look for some other





alternative; because no one will accept these two most used currency notes.

**Truck transport:** Almost every business is some way or the other dependent on transportation especially trucks. All drivers and middleman have preferred only cash. No credit card/online transfer etc. They will be impacted badly unless and until they are paid in lower denominations.

**Travellers in India:** The decision must have been severely impacted foreigners who might have done foreign exchange and converted their local currency into Indian rupee before coming to India or after landing. Since their exchange amount is high typically above Rs. 10000, they might have been directly given Rs. 500 notes for sure which won't be accepted anywhere. This applies to NRIs as well who have returned to India yesterday and have done forex.

**Daily wage workers:** Almost every industry has to deal with daily wage workers every day who are paid on a per day basis. So these workers earnings will be impacted as contractor or whoever pays them may not have lower denominations available with them. Either workers will have to accept these notes or get paid in lower currencies or get paid at a later date.

**Hotels/Restaurants:** These businesses will also suffer especially those who accept only cash currencies. No lower currencies means no visit to hotel by the customers.

**Stock market:** Anyone buying/selling physical shares typically pays via cash. In

normal scenarios, trading amount is always bigger in quantity and there is no alternative other than paying through lower denominations.

**Fruits and vegetables vendors or other doing similar businesses:** They all accept only cash, provided you are not buying from shopping mall and other places where multiple payment modes are accepted.

**Medical shops:** Medicines are lifelines for the patients. Non-availability of lower denominations or non-acceptance of Rs. 500 & 1000 currency notes will result in either medicines bought on credit/lower denominations or not bought at all due to the ban. Not everyone has Rs. 100 and Rs. 50 or lower currency notes in sufficient quantity.

**Hospitals:** This certainly apart from medical shops will be badly impacted. Patients who are already hospitalized or are under process of getting hospitalized must have done some form of arrangements for money before 08 Nov 2016. They would be badly suffer.

**Real estate:** This market will be the most badly impacted obviously due to black and white money which have been functional since years. Buyer normally pays certain % of money (black money) in cash to the builder/agents and remaining portion is paid via loan. So any deal of the house which was supposed to happen on 09 Nov, 2016 or even after this date will suffer. Because the black money or brokerage paid to agents involve large sum and all paid in cash. So buyer will either have to re-decide on buying the house or home builder or agent will have to accept these banned notes at their own



risk. Or buyer will have to arrange lower denominations and then pay.

**Remote places:** India's remotest places still have no access to banking and its various services. For e.g. northeast regions. People from such regions will suffer. To ensure smooth functioning, SBI has announced cash being airlifted from Calcutta to NE regions so that there is no shortage of Rs. 100 notes.

**Entertainment industry:** Anyone used to buying movie tickets at the counter won't be able to buy tickets if they do not have lower denominations especially multiplexes where ticket prices are high.

**Ecommerce industry:** Although ecommerce is growing at phenomenal rate in India, mode of payments used by Indians is largely cash on delivery. Because of this decision, their sales will slow down. So this will directly impact businesses of mobile phone companies, clothing's, and jewellery especially as they contribute to bigger chunk of online ecommerce market places.

**Insurance industry:** Online transactions for buying insurance is on rise but still higher number of policies are sold offline. Since normal policy premiums are higher in amount, policies won't be sold offline by most of the companies. So those who are not ready to buy online will buy either at a later date or purchase using lower denominations.

There are numerous businesses such as travel agents, ticket booking agents & many others will take a hit.

**The impact of this move on the common man includes:**

**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 Jewellery business will be hard hit.

Real estate prices will fall and the transactions volume will drop.

Banks will be having a tough time. They will be flooded with cash

**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 demonetisation 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

**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.

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:

Income taxes rates may come down.

Loans will become cheaper.  
Housing will become affordable.

Asset classes  
Bonds prices to increase in the near future

Real estates to fall

Gold rates to fall.  
Equity markets to gain in next six to 12 months

Impact on economy  
Fiscal deficit will come down  
Currency to become stronger  
Industry will become more productive  
Inflation will come down as housing prices will drop and food inflation will come down.  
Tax rates will come down as more people will be in tax net  
Business will be able to borrow at cheaper rates  
FDI to sky rocket  
Social impact  
The society will become more equitable with lesser class distinction.  
Prosecution for people who are engaging in black money.  
Some slum dwellers may actually have to pay taxes and lose their BPL status  
Politics may change forever.

As with all good things, there is a bitter truth here as well. The black money may remerge as now there is Rs 2,000 notes so paying bribes will be much easier. In fact, if the same government does not come to power again, then there is risk of reversal of some of these policies. Bribes may be paid in gold, foreign currency or smaller denomination notes, or through consumer durables. The whole plan may boomerang as there is a complete demand collapse and people lose their jobs in the unorganised sector in the near term. So there is need for strong administration and effective policy framework to make sure these initiatives are implemented in the same nerve as they were intended.

**Conclusion:** The government should have actually performed demonetization in phased manner. That is first the banks can get back notes printed before 2010



and then should have demonetized notes printed between 2010-2016. This may result to curb black money in a disciplined manner and indeed it will not affect the lives of common man. The current situation can be tackled only if the government pumps in the new notes at a faster pace. Because the reduction in new notes in banks is creating a tremendous situation among the people as they are finding it difficult to meet their daily needs. The incidence, structure and level of corruption which is occurring in India will not be impacted by demonetization. The money of hoarders and politicians are handled in offshore, so the chance of the money arriving to India is nil. Having Rs.2000 notes at their disposal will make them happy only. Any measure will have its merits as well as demerits. It should be to an extent that merits should outweigh demerits.

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## The Impact of Demonetization in India

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**Abstract:** Demonetization is an established practice in monetary policy to tackle black money. The Prime Minister has explained why this is a financial surgical strike. It was meant to be suddenly implemented. In the past, demonetization has taken place twice but it fails because the idea is to tackle the black money existing in circulation. The Government is not saying that 100% corruption will be tackled. So far, it can be said that this is a historical step and should be supported by all. One should look at the bigger picture which will definitely fetch results in the long term. This is what the people have been asking for a long time which has finally happened.

**Key words:** master stroke, corruption, counterfeit currency

**Introduction :** The official announcement of our Prime Minister Mr. Narendra Modi on 8-11-2016 address to the Nation. Finance Minister Sri Arunkumar Jaitly said that the demonetization would clean the complete economic system, increase the size of economy and revenue base. Prime Minister Narendra Modi came out with his master stroke on corruption, counterfeit currency, terrorism and black money by announcing demonetization and ceasing Rs 500 and Rs. 1000notes as a part of legal tender in India.

**Demonetization :** Demonetization refers to discontinuing of current currency units and replacing those currency units with new currency units. It is a major decision and it impacts all the citizens of the country because overnight all the money you have become a piece of paper which has no value if you do not exchange it with new currency units or deposit it in the banks.

**Impact of Demonetization:**

**Tracks unaccounted cash:**

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.

**Putting an end to black money:**

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.

**Good amount of tax revenue:**

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, hospitals, educational institutions, roads and many facilities for poor and needy sections of society.

**Benefit from demonetization:**

Every honest taxpayer should hail this decision. In the present economical situation, black money has inflated prices in real estate, gold and a few other sectors, making it a challenge for a common Indian citizen to invest. However the government's attempt to curb black money will significantly lower the prices in such sectors.

**Tackles funding to terrorism:**

Demonetization would not only repair internal economic issues, but also tackles funding to terrorism. Counterfeit money is one of the main sources of funding for activities related to terrorism. Also, corrupted government officials and politicians who have earned in illegal ways will have no other option to put that money into usage.

**“No pain no gain”:**

As the saying goes “no pain no gain”. In the same way short-term constraints will be associated with long-term benefits in this process, such as all of sudden endeavor to convert currency, limitation of new tenders throughout the network for a certain period of time.

Addressing the nation, **Prime Minister of India** provided assurance to the citizens, he quoted, “I want to tell the people again and again that the government will do everything to protect the honest” .

**The government efforts:**

The introduction of Rs 2000 note has been controversial in consideration of government's efforts to suppress black money by eliminating bigger denomination currency, what might be the strategy? It still seems to be a missing part in a puzzle. The present demonetization process has laid trap for smaller rats; it has potential to break all illegal transactions in real estate, gold, and a few other sectors where circulation of unaccounted money has reached saturation point.

**Views and Counterviews:**

**The idea of demonetization is good:**

The idea of demonetization is good but it has to be taken into consideration that most of the **black money is kept in the form of land, buildings or gold or kept abroad**. What is in cash constitutes only 4% of the total amount of black money on which taxes are not being paid. Out of this, a lot of money is in circulation in everyday transaction like if someone is building a house; the bill is not paid through banks for sand, bricks etc. This money goes into the other systems though it has been drawn from bank. These things will come under control with this step.

**Small farmers, sellers, merchants, daily wage labourers and traders are suffering:**

Small farmers, sellers, merchants, daily wage labourers and traders are suffering because of lack of proper planning, intelligence and foresight such as recalibration of ATM



machines. There was need to pile up enough 100 Rupee notes and other smaller denomination notes in the market before taking this step. It is being said by critics that this step was taken only to bolster the image of the Prime Minister as he has been unable to deliver on GDP growth, inflation and bringing the black money from abroad.

#### **Financial surgical strike:**

Demonetization is an established practice in monetary policy to tackle black money. The Prime Minister has explained why this is a financial surgical strike. It was meant to be suddenly implemented. In the past, demonetization has taken place twice but it fails because the idea is to tackle the black money existing in circulation. The Government is not saying that 100% corruption will be tackled. If announcement and time would have been given, this step might not have been successful in controlling black money and counterfeit currency in circulation coming from Pakistan, Nepal or other countries.

#### **Withdrawal has not been kept at a higher level.**

People are facing problems because the limit of withdrawal has not been kept at a higher level. If this would have been kept at a higher level, there were chances that the recycling of black money might begin. The ideal money in circulation has to come to the banking channels.

#### **Economy is struggling with slowdown.**

This is a terrible setback for the international standing of the Indian economy. At this time, the economy is struggling with slowdown. There is demand sluggishness in the economy leading to practically no private sector

investment and stagnant industrial growth. If we look at the farm sector, this is the harvest time. Farmers generally deal in cash and India is also largely a cash economy. The cash transactions in this economy are far more than the total number of electronic transactions done on a daily basis.

#### **Banking System will get a boost:**

Further Banking System will get a boost, as more than Rs 7-8 lakh crore base money (new legal money) will enter the system. However, it needs to be seen how much money actually remains in the system, once the cash withdrawal limits are eased.

#### **On the Way to Cashless Economy:**

As we know cash withdrawals limit from ATM and Banks is being restricted, this will lead to payment mechanism through online/card payment (in simple words card transactions will slowly replace the cash transaction in daily activities).

#### **Conclusion:**

So far, it can be said that this is a historical step and should be supported by all. One should look at the bigger picture which will definitely fetch results in the long term. This is what the people have been asking for a long time which has finally happened.

#### **The Impact of Demonetization:**

Demonetization refers to discontinuing of current currency units and replacing those currency units with new currency units. It is a major decision and it impacts all the citizens of the country because overnight all the money you have become a piece of paper which has no value if you do not exchange it with new currency units or deposit it in the banks.





**Impact:**

Tracks unaccounted cash, putting an end to black money, good amount of tax revenue, tackles funding to terrorism, "No pain no gain", the government efforts.

**Views and Counterviews:**

The idea of demonetization is good, **Small farmers, sellers, merchants, daily wage labourers and traders are suffering**, financial surgical strike, **withdrawal has not been kept at a higher level**. economy is struggling with slowdown, banking System will get a boost, on the Way to Cashless Economy.

**Conclusion:**

So far, it can be said that this is a historical step and should be supported by all. One should look at the bigger picture which will definitely fetch results in the long term. This is what the people have been asking for a long time which has finally happened.

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## Demonetization Practices – An overview

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**Abstract:** The Indian rupee (INR) is the official currency of the Republic of India. The Reserve Bank manages currency in India and derives its role in currency management on the basis of the Reserve Bank of India Act, 1934. Demonetization is the act of stripping a currency unit 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. There are multiple reasons why nations demonetize their local units of currency. Some reasons include to battle inflation, war 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. 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. In this context, this paper highlights the Demonetization Practices – An over view it involves History of Demonetization, views and counter views, Problems in Implementation, Problems of Common man and the need of the hour etc.,

**Key words:** battle inflation, war corruption, striking results

### Introduction

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. In economics demonetization is one of the tools to control counterfeit and lack money. Demonetization is an excellent tool to curb counterfeit money. There are multiple reasons why nations

demonetize their local units of currency. Some reasons include combating 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.

### History of Demonetization in India

The first time demonetization was done in Pre Independence era in year 1946. Post Independence the HDN currency of Rs.1000, 5,000 and 10,000 was demonetized in 1978 to curb counterfeit



and black money. On 14 January, R.Janaki Raman, a senior official from chief accountant's office in RBI, was informed about the government's decision to demonetize high – denomination notes and told to draft the ordinance. After the ordinance was drafted, it was sent to President N. Sanjiva Reddy for assent. It was through the All India Radio's (AIR) 9 am news bulletin that people were informed about the policy decision. The difference between today and past is that the current decision is dictatorial without the assent of President of India. This jeopardize the constitutional nature of our democracy where the head of the country is side lined in the name of secrecy. IG Patel, the then RBI governor, was not in favour of the step. He felt that many in the government perceived the step as a measure targeted at the "corrupt predecessor government or government leaders". In his book, Glimpses of Indian Economic Policy: an Insider's View, Pate writes that when the then finance minister HM Patel told him about the step, he asserted that steps like these rarely have striking results. He added that most people in possession of black money rarely keep their ill-gotten earnings in the form of currency for long. Thinking that black money is stashed away under mattresses or suitcases is naive, he said. Black money stashed as high-value currency is much less than black money as untaxed income, part of which might be splurged in conspicuous consumption or used for investment in real estate, commodities, stocks, benami lending or plain graft to secure political or administrative goodwill," the same is the view of our former RBI Governor

Raghuram Rajan that "steps like these rarely have striking results".

Not in entirety, say economists, because high denomination notes returned eventually. And, such notes, as we know are the basis of corruption and illicit deals related to unaccounted money. The Rs 500 note was introduced in October 1987 and Rs 1,000 note was introduced in November 2000. The move was then justified as attempt to contain the volume of banknotes in circulation due to inflation. But in current scenario Rs 2000 notes has been introduced even before Rs. 500 and 1000 notes have been drained out completely.

Abhiroop Sarkar, Professor at Indian Statistical Institute, says the 1978 move had no effect on the circulation of black money. "That's because people don't stack black money in cash. Rather, they stash it in undisclosed accounts in Swiss Banks. So demonetization won't affect the big fish," he explained to IANS. Here, it's pertinent to mention that touts made most of the move in initial days. As people didn't want to deposit their money in banks fearing tax problems, they fell for the touts instead. Anil Harish, a senior advocate told TOI, "At places like Crawford Market and Zaveri Bazar, people were selling Rs 1,000 notes for as little as Rs 300." The same is happening today where at 20 per cent to 30 per cent discount the money is getting exchanged.

In 2016, the Indian government decided to demonetize the 500- and 1000- rupee notes, the two biggest denomination notes. These notes accounted for 86 per cent 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 per cent of the tax owed was imposed.

### Views and Counterviews

The idea of demonetization is good but it has to be taken into consideration that most of the black money is kept in the form of land, buildings or gold or kept abroad. What is in cash constitutes only 4 per cent of the total amount of black money on which taxes are not being paid. Out of this, a lot of money is in circulation in everyday transaction like if someone is building a house; the bill is not paid through banks for sand, bricks etc. This money goes into the other systems though it has been drawn from bank. These things will come under control with this step. Small farmers, sellers, merchants, daily wage labourers and traders are suffering because of lack of proper planning, intelligence and foresight such as recalibration of ATM machines. There was need to pile up enough 100 Rupee notes and other smaller denomination notes in the market before taking this step. It is being said by critics that this step was taken only to bolster the image of the Prime Minister as he has been unable to deliver

on GDP growth, inflation and bringing the black money from abroad.

Demonetization is an established practice in monetary policy to tackle black money. The Prime Minister has explained why this is a financial surgical strike. It was meant to be suddenly implemented. In the past, demonetization has taken place twice but it fails because the idea is to tackle the black money existing in circulation. This is not tackle corruption per se or the Government is not saying that 100 per cent corruption will be tackled. If announcement and time would have been given, this step might not have been successful in controlling black money and counterfeit currency in circulation coming from Pakistan, Nepal or other countries.

People are facing problems because the limit of withdrawal has not been kept at a higher level. If this would have been kept at a higher level, there were chances that the recycling of black money might begin. The ideal money in circulation has to come to the banking channels.

It is also being said that what is being attempted is replacement of currency and not demonetization itself which was unnecessary. This is a terrible setback for the international standing of the Indian economy. At this time, the economy is struggling with slowdown. There is demand sluggishness in the economy leading to practically no private sector investment and stagnant industrial growth. If we look at the farm sector, this is the harvest time. Farmers generally deal in cash and India is also largely a cash economy. The cash transactions in this economy are far more than the total number of electronic transactions done on a daily basis. In the tribal heartland of the country, the poor people through



middlemen are getting their currencies exchanged for Rs.300 or Rs.400 because of lack of proper information which is hitting them. The stock of the black economy constitutes a major part of the GDP is significant. Even if 50 per cent of this amount is withdrawn, the kind of relief that RBI will get on its liabilities and the sort of deposits commercial banks will get will lead to a rise in the deposit and later on there will be decrease in lending rates plus fiscal deficit. The black money in circulation is like a steroid in the economy which keeps the demand going gives a feeling that everything is working well. The problem is that investment is not taking place in the economy and the rate of growth of capital formation is down. The only way to bring this up is to divert more funds into investments which will happen when the cost of capital comes down.

### **Problems in Implementation and Problems of Common Public**

- The common man, who are illiterate and have no access to banking facilities, will be the ones to be hit by such steps.
- Most of the country's ATMs are not built to accommodate the new Rs.2,000 and Rs. 500 notes. Thousands of engineers are working as fast as possible to retrofit the country's 2.18 lakh ATMs. This enormous undertaking is expected to take a few more weeks.
- Two lakh labour's working for construction and other labour intensive business. Out of this more than 50000 are jobless because the contractor does not have cash to pay them daily wages. No one can withdraw more than Rs. 24000 in

one week. All the construction sites are either closed or working with half labour.

- All small shopkeepers like cloth merchant, mobile shop, accessories vendor cannot procure goods. The cost of purchasing is somewhere between fifty thousand to one lakh Rs. The daily revenue which used to Rs. 2000 average a day has dropped to Rs. 300 per day.
- Who is responsible for the number of death of the innocent citizen who was deprived of medical facility due to lack of legal currency.
- The marriages which are getting affected contrast to the BJP minister spending Rs. 500 crore on his daughters' marriage.
- Small vegetable farmers sitting road side cannot sell vegetables because people are now going to big balls to purchase vegetable by cards.
- Similarly small business shops sell has dropped to 10 per cent in absence of legal currency.
- Products of non-essential commodities have fallen and essential commodities are increasing. In two days the price of wheat has increased by 18 per cent.
- The price of agro products for next cycle will increase because farmers in absence of legal cash have missed the harvest season. Instead of using seeds they are using grains which will also result in poor yield.
- Till today around Rs.5 lakh crore rupees have been deposited in bank on 21<sup>st</sup> November 2016. This has only sucked the liquidity from the market affecting the spending capacity of common man. It has nothing to do with black money.
- The head of All India Bank Officer's Confederation, D Thomas Franco, called for the resignation of



Reserve Bank of India (RBI) governor Urjit Patel, on moral grounds because nearly 11 bank officials who died due to stress.

### **The Need of the hour for Demonetization**

Since only 6 per cent of the total cash is in form of black money, and counterfeit currency is .025 per cent of our total GDP demonetization does not help. Instead the following steps would have

- Like Australia released the world's first long lasting and counterfeit-resistant polymer (plastic) banknotes the government should have waited for some time and adopted the same technique.
- To remove counterfeit currency the old currency can be drained out of main economy slowly without affecting common man.
- We for sure know which administrative post is the seat of corruption. Raid all the officers of such post. Maximum black money in form cash lies with them. Don't we know which all departments are centers of corruption. Start from India's Top 50 Cities
- Approve RTI on campaign funds for elections.
- Don't we know how many politicians are corrupted more than 50 per cent of the lok sabha members have criminal cases filed against them. IT raids on all political leaders having disproportionate wealth. Need to close as fast as possible.
- Implement Lok pal bill that house passed.

### **Conclusion**

History is taught to learn from the mistakes of the past. All the countries in the past who have taken

demonetization as step to fight counterfeit and black money has failed miserably. The government has attempted to tackle all the three issues affecting the economy i.e. a parallel economy, counterfeit currency in circulation and terror financing. So far, it can be said that this is a historical step and should be supported by all. One should look at the bigger picture which will definitely fetch results in the long run. This is what the people have been asking for a long time which has finally happened. There is no doubt that Prime Minister has pulled out a major coop and substantially enhanced his reputation as a strong leader.

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## Socio-Economic dimensions of Demonetization in India.

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### Abstract

India is the second largest populous country in the world with 130 crores of population. 27 crores of people in India are suffering absolute poverty Literacy rate is only 75 percent. 70 percent of population live in rural areas. 52 percent of working population depend on agriculture for their livelihood. 90 percent of industrial workers are engaged in unorganized sector. Indian economy is cash based economy. Therefore, demonetization is the cause for the difficulties in the circulation of money and the shortage of money in the short run. However, it will help our country in the long run. It would increase the deposits in the banks and revenue base of the government that can be used in the development our country.

**Key words:** populous, absolute poverty, literacy rate, unorganized sector, demonetization deposits in the bank, revenue base, development.

### Introduction:

After independence, we have been marching towards the goal of a developed nation. We achieved high growth rate in the recent years but the socio-economic problems of poverty and unemployment are not solved.

Today the physical production of goods and services increased with advancement of science and technology. Wealth of the country increased with economic development. Along with positive aspects of development, some negative aspects are also grown. Lust for wealth, power and passion have increased. There is tax evasion on a large scale and black money increased. We have economic problems of poverty, unemployment, economic inequalities and inflation. Problems of corruption, crime, regionalism, terrorism, violence have assumed serious proportions.

In the light of the problems mentioned above, currency notes of 500 and 1000 rupees were withdrawn from circulation from the midnight of 8-11-16.

The demonetization aimed at eradicating black money, corruption, illegal activities like smuggling and counteracting terrorism.

### (1) Socio-Economic Characteristics of India.

India is the world's second most populous country, the world's most populous democracy and one of the fastest growing major economies of the world. With world's eighth largest military expenditure, third largest armed force, tenth largest economy by nominal rates and third largest economy in terms of purchasing power parity, India is a major power in the world. However, Human development is low in India. It ranks 135 in Human Development Index. 60 percent of people lack access to sanitation facilities. 36 percent of people lack access to safe and protected drinking water. 18 percent people have no permanent housing facilities. 42 percent of children below five years of age suffer from under weight and under nutrition.





50 percent of women suffer severe Anemia due to deficiency of iron.

India is the second largest populous country in the world with 130 crores of the population. The rate of growth of population is 1.7 percent. 21 crores of people in India are suffering absolute poverty. Literacy rate is only 75 percent 4 crores of educated youth and 11 crores of unskilled labour are unemployed. We also have the problems of seasonal unemployment, disguised unemployment and under employment. 70 percent of population lives in rural areas. 52 percent of working population depend on agriculture for their livelihood. 90 percent of industrial workers are engaged in unorganized sector. (2)

### **Demonetization of currency in India**

Demonetization of currency is not new to India. It was taken up in the past also. In January 1946, currency notes of 1000 and 10,000 rupees were withdrawn to curb black money and black marketing and new notes of 1,000, 5,000 and 10,000 rupees were introduced in 1954. The (3) Janata Party coalition government has again demonetized currency notes of 1,000, 5,000 and 10,000 rupees on 16<sup>th</sup> January 1978 as a means to curb (2) counterfeit money and black money.

Demonetization is an established practice in our country to tackle black money. India has demonetized currency for the third time on 8<sup>th</sup> November 2016. Our beloved Prime Minister, Mr. Narendra Modi has explained this is a financial surgical strike as it was meant to be suddenly implemented. It aimed at eradicating black money, corruption, illegal activities like smuggling and counter acting terrorism. It is a part of the series of measures which the

government has taken and is determined to take in future.

### **Views on demonetization of currency in India.**

The idea of demonetization is good but it has to be taken into considerations that most of the black money is kept in the form of land, buildings, gold or kept abroad.

In 2012, the Central Board of Direct Taxes had recommended against demonetization saying in a report that " Demonization may not be a solution for tackling black money or economy, which is largely held in the form of Benami properties, bullion and Jewelry.

Small farmers, sellers, merchants, daily wage labourers and traders are suffering because of lack of proper planning, intelligence and fore sight such as recalibration of ATM machines. There was need to pile up enough 100 rupee notes and other smaller denomination notes in the market before taking this step.

People are facing problems because the limit of withdrawal has not been kept at higher level.

### **Evaluation of Money**

According to crowther, money is anything that is generally acceptable as a means of exchange and that at the same time acts as a measure of value. In the olden days, when there was no standard money like today, Barter system was in practice. Goods are exchanged for goods. Due to the inconvenience in the Barter system, money was invented. In the beginning, gold, silver and other metallic coins are used as money. The difficulties in the carrying of metallic money led to the invention of paper money. Later, Bank money in the form of drafts and



cheques came in to usage. Now it is time for digital money and online transactions.

According to Reserve Bank of India, the four measures of money stocks are  $M_1, M_2, M_3, M_4$ .

$M_1$  = Currency + Demand deposits of commercial banks.

$M_2$  =  $M_1$  + Saving deposits with post offices.

$M_3$  =  $M_1$  + Time deposits in commercial banks.

$M_4$  =  $M_3$  + Total deposits with post offices.

### (3) Policies of Economic development.

Economic development plays an important role in the solution of our socio-economic problems. Institutional and Technological changes are crucial in the development of developing countries in India. Monetary and fiscal policies are the two important policies of economic development. Monetary policy refers to the regulation of money supply by the central bank. The policies of the Government with regard to tax, public expenditure, public debt and deficit financing are called fiscal policies.

For sustained development of the economy, inflationary and deflationary conditions must not prevail in the economy. The central bank follows dear money policy during inflation and cheap money policy during deflation. The government increases taxes, public debt, reduces public expenditure and deficit finance during inflation and reduces taxes, public debt, increase public expenditure and deficit finance during deflation. Today we need sufficient funds available at low rates of interest for the development of private and public sectors and inflation must also be checked.

Demonetization along with other suitable measures of monetary and fiscal policies play an important role in our economic development.

### Conclusion:

Some people have been asking for demonetization since a long time which has finally been taken up. We can say that demonetization of currency is a historical and daring step and it should be supported by all. One should look broad and it will fetch results in the long time. It would increase the deposits in the banks and revenue base of the governments that can be used for development of our country. The problems of demonetization can be overcome by encouraging small and medium scale traders towards online transactions and by orienting people towards online transactions.

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## India as a Cashless Economy

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### Abstract:

The potential of electronic payments for providing meaningful inclusion as well as to reduce cash in the economic system was not in doubt anymore and even sceptical banks were aggressively contemplating launching or acquiring wallets. Merchants prefer not to keep records to avoid tax payments and the buyers find cash payments more convenient. Cash less transactions will depend on several things such as awareness, technological developments and government interventions. A material transaction to cash less economy will depend on several factors like availability and high quality telecom network.

**Key words:** Financial Inclusion, electronic payments, normal money transactions

### Introduction

On 8<sup>th</sup> November, 2016, Pradhana Manthri Sri Narendra Modi announced that the Rs.500 and 1000 currency notes will not be treated as legal tender money in business transactions and in other uses. With this statement for the last 30 days many business transactions come down to 20 to 30%. In earlier times there is very few electronic money transactions made in our economy. Due to our PM's Statement the Central Government, State Governments, the RBI, all the Nationalised Public Sector Banks and Private Banks, Non-Banking Financial Institutions (NBFIs) moved to practice a variety of products in the Electronic Payments System in all the administrative, business and normal money transactions instead of exchange cash in physical form.

The potential of electronic payments for providing meaningful inclusion as well as to reduce cash in the economic system was not in doubt anymore and even sceptical banks were aggressively contemplating launching or acquiring wallets. Financial Inclusion in India can be treated back to bank nationalisation

and told through its milestones, including loan waivers, schemes to lend to priority sectors with or without interest sub ventures, no frills accounts, micro insurance, rural branches and recently large scale enrolment under the Pradhana Mantri Jan Dhan Yojana (PMJDY), post-liberalisation bankers in India dealt with the bipolarity of large opportunities offered by or growth economy and meeting targets and sub targets under the ever-changing norms of Financial Inclusion. This paper attempts to give detailed scenario of Cashless Transactions in the Indian Economy, and it also gives the details of the diversified products of the Cash Less Transactions such as Banking Traditional Products like Cheques, Demand Drafts and the Modern products like RTGS, NEFT, IMPS, Mobile Banking, SMS Banking, Internet Banking, Debit Card, Credit Card and Prepaid Cards etc.

### Objectives of the Seminar:

- To focus on the compulsion of Demonetization along with the pros and cons.
- To orient the public towards online money transactions.



- To encourage small and medium scale traders towards online money transactions.
- To identify and prescribe corrections for the loopholes in implementation of demonitization.
- To identify the minimization of spending habit and lifestyle.

What is meant by Cash Less Economy? A Cash Less Economy is a society in which consumers pay using Credit and Debit cards, Electronic Fund Transfers (EFTs), Online Shopping, payments through Demand Drafts and Cheques. On 8<sup>th</sup> November, 2016, Pradhana Manthri Sri Narendra Modi announced that the Rs.500 and 1000 currency notes will not be treated as legal tender money in business transactions and in other uses to reduce corruption, black money and fake currency notes in the economy. According to Reserve Bank of India upto 31<sup>st</sup> March, 2016 there is 16,63,482 crores rupees currency notes is circulated in our economy. Out of these 7,95,375 crores rupees is in the form of 500 notes (47.2%) and 6,32,568 crores rupees is in the form of 1000 notes (38%). These two high valued currency notes occupies 85% of the total circulated currency. Cash – GDP ratio in India is 12.42% which is very high the world average i.e. only 4%. In India 95% transactions made in the form of physical cash.

According to International Monetary Fund's World Economic Outlook Report (2016) India is the 9<sup>th</sup> rapid developing economy in the world. India places 76 out of 168 countries in the World Corruption Index. To improve its rank in this index India has to reduce the physical cash transactions and it should be transformed to cash less transactions society. The black money concentrated with only 3% of the

people in our country but it adversely influences the remaining 97% of the population. Economic Action Group states that due to high valued currency notes the Havala, human trafficking and the drugs business expanded and troubles the Economy. Even in General Elections many political parties and its representatives using high valued black money to succeed. The institution Artha Kranthi stated that Rupees 50/- valued currency notes are sufficient to meet daily life transactions for the people. It also told that to eradicate black money the Government should introduce Banking Transaction Tax (BTT) in the place of all the existing variety of taxes. Under the PMJDY (Pradhana Mantri Jan Dhan Yojana) scheme 25.45 crores new bank accounts were opened. Still now many people in rural and remote areas are far away from the banking services. Many people still do not access the banking services. Even a large number of people got bank accounts under the PMJDY scheme they are not in a position to operate their accounts frequently. 90% of the work force in India is under the unorganised sector. In this condition it requires long time to enter this informal sector to come in the way of Cash less Economy. There is a general preference for cash transactions in India. Merchants prefer not to keep records to avoid tax payments and the buyers find cash payments more convenient. Cash less transactions will depend on several things such as awareness, technological developments and government interventions. A material transaction to cash less economy will depend on several factors like availability and high quality telecom network. People face difficulties in making e-payments, the machinery of e-



payments like Point of Sale (POS) and ATMs etc.

**Benefits of the Cash less Economy:**

- Digital payments indirectly reduces expenditure in manufacturing currency notes and its transportation.
- Going cash less economy, there will be possible to reduce terrorism and anti-social activities like naxalism.
- The Cash less economy ensure targeted delivery of schemes to the eligible people and it reduces leakages.
- In the Cash less economy there is no chance to tax evasion and it minimizes hiding money.

**Diversified modes of Electronic Payments:**

**Credit Cards & Debit Cards:** The Credit Cards issued by all the nationalised banks to employees, businessmen, industrialists, middle class people on the basis of their income levels. These Cards issued in addition to their Basic Debit Cards. The Card holders utilise these money with 0% interest with the span of 50 days. We should paid the money which we utilise in EMI form. We utilise our Debit Cards to withdrawing money from ATMs and online shopping and at Point of Sale terminals (POS).

**Internet Banking:** All the nationalised Banks provides 24 hours 365 days working services to their customers. In this facility the customers need not go physically to their home branches or any other branches and they save their time and money.

**The following services available in the internet banking:**

1. Instant money transfer to different banks beneficiaries.
2. Opening up of Fixed and Recurring deposit accounts.

3. Cancellation of Fixed Deposit accounts.

4. Consumer Bill Payments like Electricity bills, Gas, Mobile and Landline post paid bills, DTH recharge, Income taxes and other tax payments, Credit Card Bill Payments.

5. Insurance premium payments, purchase of Gift Cards.

6. Purchase of Mutual Fund products and other Financial products.

Mobile Banking: to get mobile banking service through our smart phones first we should download concerned "banks app" in our smart phones. Then we should fill up all the required details and we can manage our loan account, loan payments, purchase of gift vouchers, balance enquiry and mini statement.

**NEFT and RTGS money transfer facility:**

We can transfer huge amounts of money to other individual and institutions instantly with the help of these two services. There is no minimum and maximum limit for NEFT money transfers. Under the RTGS money transfer system we can transfer more than 200000 and there is no maximum limit. We can access these facilities between 8:00 am to 7:00 pm. These money transfers done on the basis of batch wise per hour. i.e 12 batches 12 times.

**\*99# services:** These facilities come under the USSD (unstructured supplementary service data) form. We can get offline banking services through \*99# scheme. It is maintained by National Payment Corporation. This service jointly provided by Banks and Telecom operators. If we dial \*99# with the registered mobile number we can get 7 types of financial and non-financial services. We can transfer money to other



beneficiaries with this scheme. These services available to its users 24 hours even in bank holidays.

For accessing these services feature phone holders should dial \*99# and the smart phone holders should download \*99#app. There are no user charges collected by banks but the telecom operators charges Rs.1.50 per sms.

**Unified Payment Interface (UPI):** This services recently introduced. We can transfer funds and get funds instantly with the help of beneficiaries Virtual Payment Address (VPA) which we call as virtual id. Under This scheme beneficiaries account number and MMID (mobile money identifier), IFSC need not require. Even an individual get different bank accounts we can operate this services with the help of UPI app.

**Gift Cards:** many institutions reward their employees with pre-paid gift cards. These are very comfort and it validate with a period of one year. These cards issue with the range of Rs.100 to 100000. We can utilise these gift cards in shopping malls, online purchases.

**E-Wallet:** it is very comfort and simple to make transactions electronically. These e-wallet facilities available in smart phones, personal computers, tabs and laptops. We can download a wallet from any of the firms. Once we opt a wallet then we connect it with our bank account with our details like name, account number, debit, credit card number etc. after connecting the wallet to our bank account we can access e-commerce services, telephone recharge, and booking transport tickets.

**National Payments Corporation of India (NPCI):** it is a nodal infrastructure agency for small payments and real time

payments using Immediate Payment Service (IMPS).

**Pre-paid Payment Instruments (PPIs):** Earlier, it enables to purchase Railway tickets by using Electronic Payment System, Bill Payments, recharges and small remittances. In a span of less than 18 months, PPI contributed to more than 40% of all IMPS transactions between banks and non-banks connected to IMPS switch.

**E-Commerce:** Amazon, Flipcart and the Snapdeal are the e-commerce firms which sell variety of products like Electronic goods, toys, books, clothes and even food items. The firms sell all their products not only at and below MRP but they also give 5 to 25 % discount. The online commerce firms deliver the items at our door steps. Some online shopping firms attract the customers with refund facilities.

**Precautions to be observed in online money transactions:**

- The account holder create email id, mobile number in concerned home branch.
- Under any circumstances do not share our user id, password with others.
- We should access our net banking account only through banks official website address.
- We do not disclose our Debit and Credit card numbers, PIN and CVC numbers.
- We should thoroughly check our bank statement in the internet banking.
- Unfortunately lost our debit card immediately we go to our home branch and block it to avoid using unauthorized persons.
- After completing transactions in online banking we should log out our account and then only close the browser.





**Regulation of Cyber Crimes:** India stood at 11<sup>th</sup> place in Cyber Security. To make safe and fair cash less money transactions the following issues may be implemented.

- Banks and related service providers must constantly invest in technology to improve security and ease of transaction.
- People access only when it is easier, certain and safe to make Cash less Transactions.
- The government must find ways to incentivize Cash less Transactions and discourage Cash Payments.
- The Government will have to create conditions not necessarily by creating cash shortages to push cash transactions to a threshold level after which the net work effect will take over.
- To avoid cyber crimes in cash less transactions finger print based transactions must be introduced.
- Iris based technology should be introduced in Electronic Money Transfers.
- Investing in cyber security technology to invent and develop new methods of Electronic Fund Transfers.
- One Time Password (OTP) based fund transfers should be encouraged.
- Grid should be connected to online base and Debit card based cash transactions to avoid misuse in Electronic Fund Transfers and Online bill payments.
- Compulsorily using the virtual key boards while accessing online banking services.

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## Demonetization - An Analytical Insight

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### Abstract

Thou hath made me Endless; such is for theirs' Pleasure' is the noblest move of Hon'ble Prime Minister Sri. Narendra Damodardas Modi. A positive, progressive and prospective announcement towards 'Demonetisation of Currency' on 08<sup>th</sup> November, 2016, could place certainly Indian Economy as one of the Top-10 Digitalized Economies in the world. More productivity, greater accountability and stronger compliance, lesser wastage, more evolution are parameters of 'Digitalization'. Networked Readiness Index (NRI) is an indicator to measure the competencies, and competitiveness and well-being. No economy in the world is a cashless economy. All economies even advanced economies, which have a lot of transactions online, etc., Demonetisation is a right move towards the right reasons with a stated vision. The move from informal economy to formal economy, from black to white, cash based to cashless certainly boost GDP growth, will transform Indian Economy into Digital Economy and improves international rank profile of India amongst 168 countries during Modi's regime. Beginning is Noble but the path to heaven is full of sinners and believers. The act may be a democratic or despotic the ripening fruits have to reach the common minimum man at length and breadth. An attempt has been made in the paper to present historical antecedents of demonetization in India, Value of INR prior and post demonetization, the structural benefits and despotic actions and also suggest the right maladies for turning around Indian Economy towards Digital and Cashless Economies. The long-run gains of demonetization depend on execution and implementation not intentions, not aspirations, but whether the government can deliver on its promises. Undoubtedly, Indian Economy will emerge as one of the Utopian Economies in the world in the regime of Sri. Narendra Modi.

**Key words:** *Digitalized Economies*, demonetization, structural benefits

### Introduction

At the dawn of Fourth Industrial Revolution, the 'Digital Divide' emerged as one of the new and powerful indicators in the world. Artificial Intelligence (AI), Analytics, Robotics, the Internet of Things, Autonomous Vehicles, 3-D

Printing, Nano-Technology, Bio-Technology, Materials Science, Energy Storage and Quantum Computing play vital and powerful indicators in the world economies. Networked Readiness Index (NRI) is a key indicator which measures how well an economy is using 'Digital Information and Communication



Technologies' to boost competitiveness and well-being. Singapore, Finland, Sweden, Norway, US, Netherlands, Switzerland, UK, Luxembourg, and Japan harnessed information technology at par with excellence and ranked Top-10 Countries in the World.<sup>1</sup>

A decisive move by Indian Economy towards 'Digital Economy' where there will be more productivity, greater accountability and stronger compliance, lesser wastage, more evolution and also weed out evils in the country's shadow economy, on 08<sup>th</sup> Nov, 2016, the Hon'ble Prime Minister, Sri Narendra Modi, has announced that all Rs. 500 and Rs. 1,000 Currency Notes would cease to be legal tender by the end of the year. They must be redeemed or will be rendered null with the with the objective of unearthing and controlling black money (about US\$250 billion), combatting the financing of terrorism and curbing the circulation of counterfeit currency (ranging from 4 to 0.004 per cent) in the economy which has leveraged these larger currency notes (with values equivalent to about US\$7.50 and \$15.00).<sup>2</sup> The Currency denominations of Rs. 500 and Rs. 1000 make up about 86 per cent of the total currency in circulation by value in India and represent the maximum and most popular currency denominations.

<sup>1</sup> . World Economic Forum, 2016.

<sup>2</sup> . Centre for Financial Inclusion, What Does India's Demonetization Experiment Mean for Financial

Inclusion? [https://cfi-blog.org/2016/11/16/whatdoesindias-demonetizationexperimentmeanforfinancial\\_inclusion](https://cfi-blog.org/2016/11/16/whatdoesindias-demonetizationexperimentmeanforfinancial_inclusion)

## Demonetization - The Historical Antecedents

The term 'Demonetization' refers the act of stripping a currency unit of its status as legal tender. In January, 1946, the Government Of India, demonetized Rs. 1000 and Rs. 10000 Currency Notes with the value of Rs. 143.97 crores as against the total notes issued of the value of Rs. 123593 crores<sup>3</sup> and New Currency Notes with the denominations of Rs. 1000, Rs. 5000 and Rs. 10000 were introduced in 1954. On 16<sup>th</sup> January, 1978, the Janata Party Coalition had again demonetized Rs. 1000, Rs. 5000 and Rs. 10000 Currency Notes as a means of curbing counterfeit money and black money.<sup>4</sup> Amount of these notes at the time of demonetization was equal to Rs. 145.42 crore.<sup>5</sup> The 'Demonetisation' move could also impact the money supply, interest rates, financial inclusion and government finances.

<sup>3</sup> . K. Ratnesh J.K. Singh P.N. Singh (2008)., Encyclopaedia of Indian Economy, Deep and Deep Publications, New Delhi, p.831.

<sup>4</sup> . Gopika Gopakumar, Vishwanath Nair (2016)., Rs 500, Rs 1000 notes may be back, if history is a guide, Live Mint, 09<sup>th</sup> Nov.

<sup>5</sup> . B.L. Mathur (2001)., Monetary Management, Discovery Publishing House, New Delhi, p. 99.



**Table-1: Value of Indian Rupee - Prior and Post Demonetization**

Period	Stronger	Weaker	Same
After 26 Days of Demonetization (From 08 <sup>th</sup> Nov, 2016 To 04 <sup>th</sup> Dec, 2016)	47	110	4
From 19 <sup>th</sup> To 26 <sup>th</sup> Days of Demonetization (From 27 <sup>th</sup> Nov, 2016 To 04 <sup>th</sup> Dec, 2016)	130	25	6
From 12 <sup>th</sup> To 19 <sup>th</sup> Days of Demonetization (From 20 <sup>th</sup> Dec, 2016 To 27 <sup>th</sup> Nov, 2016)	19	136	6
For the First 12 Days of Demonetization (08 <sup>th</sup> Nov, 2016 To 20 <sup>th</sup> Nov, 2016)	44	112	5
Prior 6 Months of Demonetization (08 <sup>th</sup> May, 2016 To 08 <sup>th</sup> Nov, 2016)	125	32	4

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

After Denomination on 08<sup>th</sup> Nov, 2016, the Indian Rupee became weaker than Currency of 110 Economies. Out of the Currency of 161 Nations, Indian Rupee gets stronger than 47 Currencies and is at same exchange rate with 4 Currencies. Prior 6 months of Demonetization *i.e.*, from 08<sup>th</sup> May, 2016 To 08<sup>th</sup> Nov, 2016, the Indian Rupee weighed more with compare to 125 Currencies.

Soon after 26 days of Demonetisation of Rs.500 and Rs. 1000 Currency Notes, INR weighed stronger only to 47 Currencies. Moreover, INR became weak by 2.43 per cent against US Dollar (\$). Rupee has become weaker against some popular currencies like British Pound, Canadian Dollar and Singapore Dollar too. Yet, stronger to Euro, Australian Dollar, Swiss Franc, and Japanese Yen. INR became weak than South Asian Currencies of Pakistani Rupee, Sri Lankan Rupee, Bangladeshi Taka and Nepalese Rupee.

### Demonetization - The Structural Benefits To Indian Economy

Demonetisation move certainly change the face of the Indian Economy, it will have a transitory impact on **GDP Growth** in short-term, but it will spell significant structural benefits over the long-term. The size of the **Cash Economy** will shrink, as will black money generates avenues because of better-cash flow trails. Cash-dependent, Consumption-led sectors of the economy will also feel the pinch, while Investment demand will be tempered in the short-term. The maintenance of neutral liquidity in Banking System increases **liquidity** lead to higher deposits which will help to mitigate any short-term liquidity concerns on account of FCNR Redemption. There is a downward pressure in case of **inflation** in short-term because cash transactions will reduce. In the long-run though, as Government spending rises pushing up employment and incomes, demand will revive. A



sharper fall in Rural Versus Urban Inflation is possible due to downward pressure on Prices lead to lower demand especially in Housing, Transport and Food where share of cash transactions is high. However, the impact on inflation is to be neutral in the medium-to-long term.

Over the long-term, Tuesday's move buoyantly improves *Government's Fiscal Position and Revenues* in the form of Taxes. Direct Tax collections are just about 5.5 per cent of GDP and about 50 per cent of Total Tax Collections and this contribution is expected to rise in future. This will also help the Government stick to its fiscal restraint path.

*Income-Tax* collections are expected to kick-up as funds earlier unaccounted are get eventually taxed and this One Time Tax collections in long-run pave the way for better *Tax Compliance* and push up Direct Tax Collections in the medium-term. Higher Income-Tax collections arising from better Tax Compliance would also offer scope to reduce Income-Tax Rates over the long-term which would increase *Disposable Incomes*. This can have a positive impact on Consumption Demand in the long-term.

*Public Investments* to rise and will also have positive spillover effects on *employment and income*. The Investment scenario drive up the supply capacity of the Indian Economy, overall GDP Growth is expected to benefit in long-term. However, in short-term, the GDP Growth may get impacted negatively as the Cash-Based Economy feels a crunch and consumption and investment moderates.

India has the highest ratio of Cash / GDP in the world.<sup>6</sup> The average number of cashless transactions per person per year in the country stood at just 11 where as in USA this is around 400. The value of cash transaction in India, as a percentage of Total Consumer Payments was approximately 86 per cent in 2012.<sup>7</sup> This number might have come down by picking up in *Electronic Transactions*. The *unaccounted \$479 billion money* should get mainstreamed, inflation would tread down as demand slows in the short-term but the impact over the long-term would be neutral. But millions of MSMEs in unorganized sector that use cash to transact will be inconvenience for a while.

#### Demonetisation - A Despotic Action

Demonetisation, a positive, progressive and prospective move towards transition to the Digitalised and Cashless; it undermines notes, it undermines bank accounts, it undermines the entire economy of trust. That is the sense in which it is despotic.<sup>8</sup> It is nothing but sucking 85 per cent of the blood from the body in one go and injecting new blood drop by drop. In a country where 97 per cent of all

<sup>6</sup> . Ajay Shah (2016)., A Monetary Economics View of the Demonetisation, Business Standard, 13th Nov, 2016.

<sup>7</sup> . N. Joseph, R. Korenke, B.D. Mazzotta and B. Chakravorti (2016)., Cash Outlook : India, IBGC Working

Paper, Vol.13, No.1, The Institute For Business in the Global Context, The Fletcher School, Tufts University.

<sup>8</sup> . The Hindu, Amartya Sen terms Demonetisation a Despotic Action, 30<sup>th</sup> Nov, 2016, p.1.



transactions (by volume) are done in 86.40 per cent of its currency value was cash, the summary demonetisation of bound to create chaos.

**Table-2: Indian Population (Aged 15 Years and Above) - Status of Education (in percentage)**

Population	Illiteracy	Primary Education	Upper Primary	Secondary Education	Graduates and Above
Rural	36.76	22.96	16.66	19.92	3.71
Urban	15.89	16.76	16.31	32.95	18.08
<b>Total</b>	<b>29.83</b>	<b>20.90</b>	<b>16.55</b>	<b>24.25</b>	<b>8.48</b>

Source: National Sample Survey (2011-12), Govt. Of India, New Delhi.

According to a survey conducted by S&P<sup>9</sup>, it is found that 3/4<sup>th</sup> of Indians are not financially literate *i.e.*, approximately 76 per cent of adults lack basic financial literacy and they don't understand the most basic and key financial concepts.

**Table-3: Financial Literacy in India - A Survey (percentage of Adults Answering Correctly)**

Topic	India	BRICS	South Asia (Excluding India)	World
Risk Diversification	14	28	18	35
Inflation	56	46	46	50
Interest	48	48	46	49
<b>Financial Literacy</b>	<b>24</b>	<b>28</b>	<b>23</b>	<b>33</b>
Compound Interest	44	44	39	45

Source: S&P Survey (2016)

The devastating impact the decision has had and is likely to have, both in the short and the long run, on people and the economy as a whole. The entire informal economy that accounts for 94 per cent of India's workforce and 46 per cent of its Gross Domestic Product (GDP) has almost halted. The *Liquidity Squeeze* caused by Demonetisation will be negative across many sectors.

economy as a whole. The entire informal economy that accounts for 94 per cent of India's workforce

<sup>9</sup>. Standard & Poor's Survey (S&P), 25<sup>th</sup> May, 2016.



With 86 per cent currency in circulation suddenly becoming non-usable for commercial transactions, there will be immediate impact on Overall Economic Activity.

It leads to economic slowdown and acute shortage of currency for industrial as well as agricultural operations. The impact on agriculture and those dependent on agriculture has been gradually unfolding. In the first week after Demonetisation, market arrivals in select major States fell by 87 per cent for soybean, 55 per cent for paddy, 61 per cent for guar, 51 per cent for maize and 23 per cent for cotton. To sum up, Demonetisation is likely to affect agricultural growth adversely and shrink rural incomes and consumer demand. It has already created a serious credibility crisis for rural cooperatives.<sup>10</sup>

The total credit demand for **MSME Sector** over the medium-term would be Rs. 45 lakh crore, about Rs 5.15 lakh crore needs to be mobilised to address the near-term requirement.<sup>11</sup> Short-term turbulence observed in **Real Estate, Jewellery, Retailing, Restaurants, Logistic, Consumer Durables, Luxury Brands, Cement and Retail Segments** in terms of slowdown in demand. This move along with GST will have a negative impact on Small Businesses across sectors and drive consolidation or gaining market share for organized players. India's current episode of Demonetization has revealed the stark digital financial divide between urban and rural populace and also info and infra

facilities are limited in number and created chaos.

### The Way Forward

*Beginning is Noble but the path to heaven is full of sinners and believers.* The act may be a democratic or despotic the ripening fruits have to reach the common minimum man at length and breadth of the nation. India's ambitious exchange of currency notes is novel. Very few countries have repudiated the value of over 85 per cent of outstanding currency. Rather than a 'Monumental Mismanagement' and a case of 'Organised Loot and Legalised Plunder', the strategies to adopt for its success *inter alia* include: (i) the continuous political will of the Govt., Of India with rigor; (ii) Cost-Benefit Analysis (CBA) with which the scheme is implemented at par with excellence as per stated objectives; (iii) usage of plastic and digital money at large; (iv) perform extensive analytics for cash deposit; (v) bring legal transparency in cash as well as credit transactions; (vi) strengthen national cooperation and coordination through different agencies; (vii) roll out customer due diligence, record keeping and report requirements; (viii) bring the segment of DNFBP under the purview of enhanced due diligence measure of regulated authorities; (ix) the exchange plan will also be aggressive and (x) providing sufficient amount of cash in the market.

No economy in the world is a cashless economy. All economies even advanced economies, which have a lot of transactions online, *etc.*, Demonetisation is a right move towards the right reasons with a stated vision. The move from informal economy to formal economy,

<sup>10</sup> . R. Rama Kumar (2016)., Brakes on the Rural Economy, Frontline, 07th Dec, 2016.

<sup>11</sup> . ASSOCHAM - Crisil Study (2016).



from black to white, cash-based to cashless certainly boost GDP growth, will transform into digital economy and improves international rank profile of India amongst 168 countries during Modi's regime. The long-run gains of demonetization depend on execution and implementation not intentions, not aspirations, but whether the government can deliver on its promises. Undoubtedly, Indian Economy will emerge as one of the Top-10 Utopian Economies in the world.

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