
Demonetization in India: Issues and Challenges

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ABSTRACT

India is one of the fastest growing economies in the world and constantly increasing pace towards growth and development. But there is also various deadlocks like black money, fake currency, corruption etc. To remove these, government took a big step to demonetized all high denomination 1000 rupees notes and 500 rupees notes. The main idea behind demonetization was to control black money, flush out counterfeit notes and uproot parallel economy. Apart from demonetization decision was also push for Indian citizens towards digitalization. The purpose of the study is to understand various issues and challenges regarding demonetization.

Key words: Demonetization, Growth, Development, Digitization.

INTRODUCTION

‘Demonetization is the act of stripping a currency unit of its status as legal tender’ (Saini 2016). On 8 November 2016, the government took a transformational decision to demonetized all 500 and 1000 notes from circulation. These two big denomination notes accounted for 86 percent of the total India’s money supply i.e 15.44 lakh crore (17165 million pieces of Rs 500 and 6858 million pieces of Rs 1000 notes) were circulation on 8 November 2016. The government also announced the issuance of new series of rupees 500 and 2000 rupees notes. Till December 2016, the Reserve Bank of India has likely received Rs 14.5 lakh crore of the old Rs 1000 and Rs 500 notes. This is around 94 percent of the Rs 15.44 lakh crore which was withdrawn from circulation on 8 November. But Reserve Bank of India is still doing cross checking reconciliation. Although demonetized decision is not new because in January 1946, the government demonetized 500 and 1000 notes and in January 1978, 1000, 5000 and 10000 rupees were demonetized. During that time the aim of demonetization was also focused towards black money and fake currencies. But the difference only is that during those days high denomination notes were less in circulation. In 1946 and 1978, only 6.3 percent and 11 percent not returned to the banking system.

This decision of demonetization has created turmoil in the Indian economy. Because Indian people more dependent on cash rather than digital transactions. But during demonetization digital pace was only viable option for Indian people. Although India is mainly cash based economy but due to this decision people stricture from cash to cashless transactions. Through this decision, Indians also got impetus towards digitization rather than unnecessary hoardings.

Objectives of the Study

1. To understand issues and challenges of demonetization.
2. To analyze the impact of demonetization.

Research Methodology

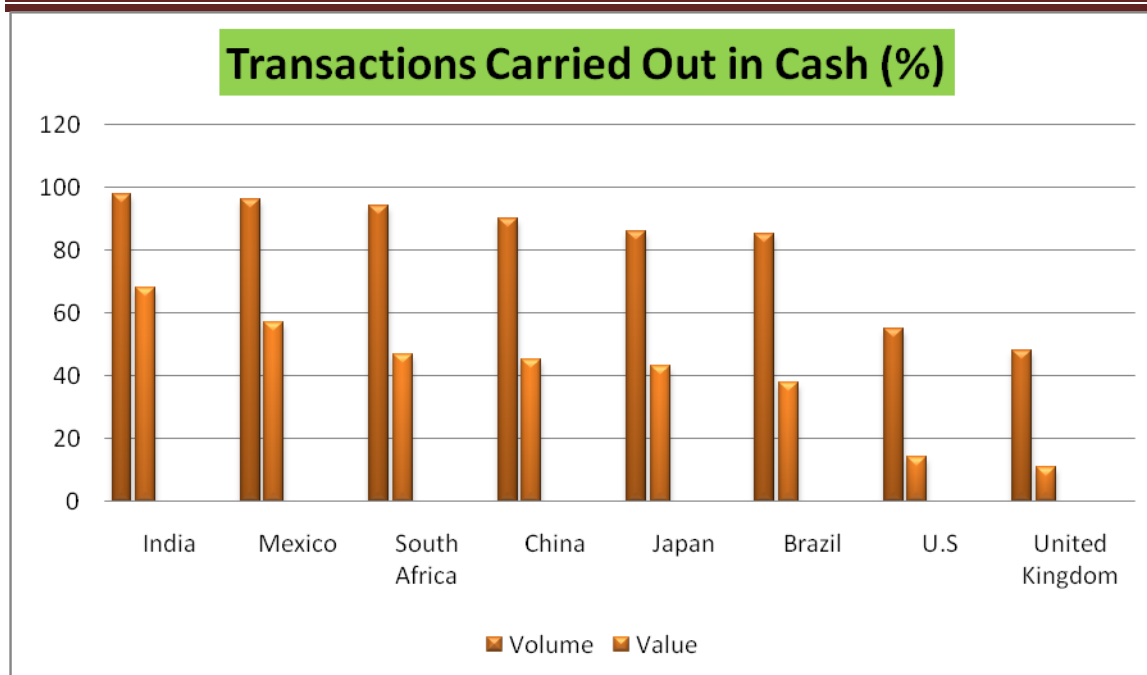
This study is analytical in nature and it is based on secondary data. The secondary data has been collected from various secondary sources like newspapers, websites and journals.

Need of demonetization

- To flush out fake currency.
- To control black money.
- Push towards digitization.
- To uproot parallel economy.

Issues and Challenges in Indian Economy

Demonetization was a big shock to black money hoarders as well as impetus to all Indians towards digitization. During demonetization government offered some incentives for digital payments like purchase through E-wallet and card discount will be 0.75 percent. If purchase through card, no service will be charged etc. The government has also developed various apps to carry out digital transactions like BHIM, Paytm. Although Paytm transactions are free but when merchants/shopkeepers transfer balance to bank account then 2 percent fee imposed. It is also true that more and more digital transactions will increase transparency in economy. But Indian people also worried about financial security over digital payment, data stolen by attackers, privacy issues as well as more trust on traditional habit of paying cash. 'Financial security over the digital payment channels is imperative for pushing the less cash economy' (Venkatapathi and Chaturya 2016). This led to Indian citizen towards cash rather than digital transactions. India has 25 billion credit cards and 700 million debit cards; but 950 million people about 78 percent of the population do not have internet connection (Reserve Bank of India data). Those people who do not have smart mobile phones, facility of internet access they will depend on cash in future also. 'Internet usage and smart phone ownership in India has risen in past few years but still lags behind most emerging nations' (Pew Research Centre 2015). Due to shortage of cash they may force to use digitization but those who do not have faith or those who do not have facility they will again switch to cash. According to 2015 report from PWC, in India 68 percent of the total value of transactions happens in cash, 98 percent of all transactions by volume happen in cash which is more than compared to other countries like Mexico, South Africa, China, Japan, Brazil, U.S, United Kingdom.



Source: PricewaterhouseCoopers, 2015

The above data clearly shows how Indian economy dependent on cash based transactions. The main reasons behind cash based transactions are informal sector constitute a large part of Indian economy, 30 percent of Indian population is below poverty line, traditional habit of paying cash, lack of financial literacy and above all safety and security from cyber crime. As per ASSOCHAM-Deloitte study, internet connectivity remains out of reach for nearly 950 million citizens. According to Nielsen Global Connected Commerce Survey 83 percent of consumers in India prefer cash on deliver for online purchase.

Declining Electronic Payment

As per data released by Reserve Bank of India, the decline in electronic payment is being seen after improving cash availability situation over the last few months due to demonetization.

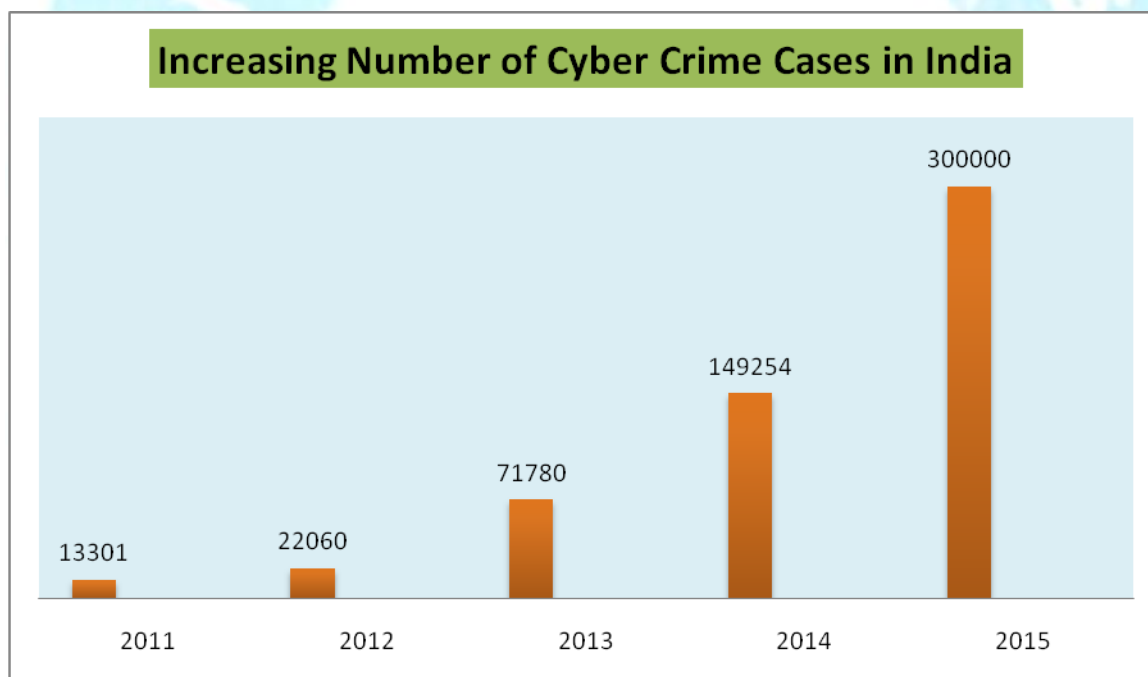
Data for the Period		Nov- 16	Dec-16	Jan-17	Feb-17	Change
Debit and Credit Cards at POS	Volume	205.5	311.0	265.5	190.4	-28.3
	Value	352.4	522.2	481.2	352.4	-26.8
PPI (wallets)	Volume	59.0	87.8	87.3	72.3	-17.1
	Value	13.2	21.3	21.0	17.2	-18.0
Mobile Banking	Volume	72.3	70.2	64.9	51.5	-20.7
	Value	1244.4	1365.9	1206.7	904.5	-25.0
Total	Volume	671.5	957.5	870.4	684.7	-21.3
	Value	94004.2	104055.3	97011.4	80765.0	-16.7

Source: Reserve Bank of India (Report)

The above data reveals that the volume and value of transactions in January 2017 and February 2017 slipped below as compared to November 2016 and December month 2016. In Volume of transactions through electronic payment fell i.e 21.3 percent from 870 million in January 2017 to 684 million in February 2017 whereas in value terms the decline was 16.7 percent from valued at Rs 97011 billion in January 2017 to 80765.0 billion in February 2017. During the demonetization period due to lack of availability of cash, preferred modes of electronic payment had emerged but after availability of sufficient cash consumers again switch to traditional payment system.

Cyber Crime

‘Cyber crime is unlawful acts wherein the computer is either a target or a tool or both’ (Karali et al 2015). Cyber crime has become major issue and challenge in India. Over the past few years, cyber crime has been increasing persistently. ‘Cyber experts or hackers are very smart and use the latest technology for hacking they know all the cyber laws and find out the loopholes within that law and perform the illegal activities’ (Patel and Kathiriya 2013).



Source: ASSOCHAM- Mahindra SSG Report

The above data reveals that 13301 cyber crime cases were registered in 2011 which increased by almost 66 percent in 2012. In the year 2013, 71780 cyber crime cases were registered which increased by almost 225 percent as compared to previous year while 107 percent more crime cases were registered in 2014. The number of cyber crime cases were registered 300000 in the year 2015 which increased by almost 100 percent. The above data clearly shows exceptional increase in cyber crime cases and it also pose a big question before law and government. Moreover, the above data also shows that India is much lag behind safety and security towards online transactions.

Slow Speed of Internet in India

As per report data provided by State of Internet, average internet speed in India at 5.6 Mbps still lag behind. The following data shows the average internet speed of various countries:

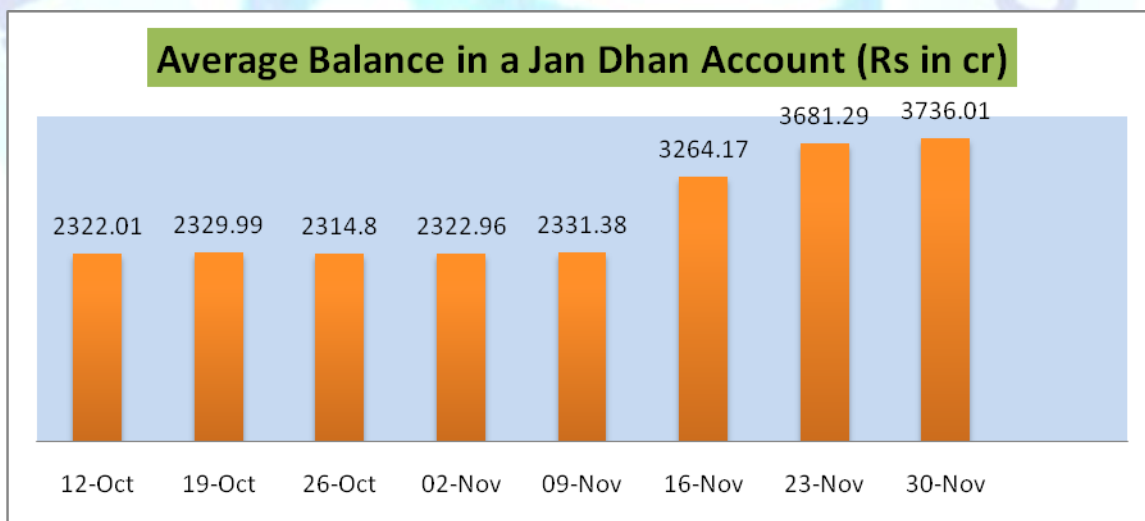
Country/Region	Average.Mbps
South Korea	26.1
Hong Kong	21.9
Singapore	20.2
Japan	19.6
Taiwan	15.6
Thailand	13.3
New Zealand	12.9
Australia	10.1
Vietnam	8.3
Malaysia	8.2
Sri Lanka	7.3
Indonesia	6.7
China	6.3
India	5.6
Philippines	4.5

The above data clearly shows the internet speed of India i.e 5.6 Mbps which is very less as compared to other cities. This is also a big reason behind reluctant behaviour of Indian people towards online payment and other online transactions.

Black Money, Fake currency and Corruption

Black money, fake currency and corruption is a big menace for Indian economy. These deadlocks made crippled and handicapped and push economy towards parallel economy. For curing these problems government took initiative step to control these problems to withdraw all 500 and 1000 notes from circulation. According to report of Reserve bank of India published in the year 2015-16 more than 2.61 lakh fake notes of Rs 500 were detected by banks in the year 2015-16 whereas 1.43 lakh fake notes of Rs 1000 were detected by banks. Government targeted to these notes because huge fake notes of Rs 500 and 1000 were in circulation as well as black money hoarders keep their savings in the form of Rs 1000 and Rs 500. About Rs 4807 crore of undisclosed income has been detected whereas Rs 11200 notes have been seized till 5 January 2017 by the Income Tax Department. Demonetization was a revolutionary step to break this chain of black money, fake currencies and corruption. 'Although all black money is not in cash, only a tiny fraction is because holders of black money keep their wealth in form of real estate, gold, deposits in foreign accounts and beenami transactions' (Bedi 2017).

Black money, fake currency and corruption has many disadvantages like increase inflation, wasteful consumption, increase in criminal activities. Black money holders always take advantage of loopholes. 'As per CBDT notification quoting of PAN is mandatory for transactions exceeding Rs 50000 during any one day or an aggregate amount of exceeding Rs 250000 during 09.11.2016 to 30.12.2016 that means a person with bank account without PAN can deposit upto Rs 250000 in multiple deposits of less than Rs 50000 on various days' (Ramdurg and Basavraj 2016). During demonetization hoarders of black money and counterfeit currency continued to flourish, they turn their black money into white. Moreover total amount of Jan Dhan accounts surged by around Rs 28973 crore in about a month while total daily amount deposit was Rs 410 crore on 1 December and 389 crore on 2 December after the announcement of demonitisation. This clearly shows that how black money hoarders took the advantage of poor people and turned their black money into white. As per data provided by Department of Financial Services:



Source: Department of Financial Services

The above data reveals that the average balance in Jan Dhan Account surged sharply after demonetization move. The amount deposit on 9 November was 2331.38 crore, on 16 November surged

by around Rs 3264.17crore, on 23 November surged by around Rs 3681.29 crore and on 30 November Jan Dhan Account soared by around Rs 3736.01crore. The average balance in Jan Dhan Account had increased by 60 percent between 9 November to Rs 74312 crore.

Increasing Flow of Money

Name of States	Number of Jan Dhan Account as on November 9	Deposit as on November 9 (Rs crore)	Number of Jan Dhan Account as on December 14	Deposit as on December 14 9 (Rs crore)	Change in Percent of deposit in Jan Dhan Account (%)
Arunachal	185713	40.45	186943	58.51	44.65
Assam	9628278	1773.68	10181427	2581.11	45.52
Manipur	706394	118.56	711593	257.52	117
Meghalaya	376747	153.15	378784	264.14	72.47
Nagaland	191990	30.4	195602	48.01	58
Tripura	822620	426.77	827037	622.32	46
Total	12291880	2571.95	12865150	3860.72	50 (approx)

Source: www.pmjdy.gov.in

The above data clearly reveals abnormal surge in Jan Dhan Account after demonetization. The selected states shows surge in number of accounts as well as in deposit. The change in percent of deposit in Jan Dhan Account of Manipur was 117 percent, in Meghalaya it was 72.47 percent, in Nagaland it was 58 percent and in Tripura, Assam, Arunachal percentage was 50, 45.52 and 44.65 respectively.

Conclusion

Demonetization decision was a strong and essential move for Indian economy to tackle black money, flush out fake currencies, control on terrorism activities as well as give initiative to Indian citizen towards digitization. But these deadlocks cannot be uprooted easily or only through one weapon. Corrupt people persistently have been engaging in wrong and unlawful activities. This move of government was only disruptive force for these people. Apart from, Indian citizen got initiative through demonetization move. It is also true that cashless transactions will reduce black money, fake currencies and expenses of management of currencies. But most of the Indians have limited access to internet; online payment as well as informal sector also constitutes a large part in Indian economy which is highly dependent on cash. Paytm, BHIM, credit card, debit card and other digital option are good and useful option for those

who have facility and education of digital transaction. Those Indians who do have facility of smart phone and internet then there is no use of mobile wallet. Apart from Indian citizens are also habitual towards traditional payment and less trust on digital transaction. Government need to take steps in this regard as well as there is also need to increase financial security, digital education, more incentives should be provided towards digital transaction. Moreover, it was good cleaning process but black money hoarders seeds are remaining and safe due to various loopholes.

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