

“Demonetizations 2016-17: The Impact on Digital Transactions in Rural India”

Mrs. Shellyka Bansal

Assistant Professor, Baba Farid College, Bathinda

ABSTRACT

According to investopedia **Demonetization** means the act of stripping a currency unit of its status as legal tender. There are multiple reasons why nations demonetize their local units of currency. Some reasons include to brush-off inflation, to brushoff corruption, and to dispirit a cash system. The process of demonetization involves either introducing new notes of the same currency or completely replacing the old currency with new currency. Indian government adopted demonetization on 08 November 2016 to tackle with black money and make India a cashless digital economy. As per the yearly report of Reserve Bank of India of 31 March 2016 that total currency notes in circulation is 16.42 lac crore of old Rs. 500 and Rs.1000 banknotes. As per the report of RBI dated on 14-12-2016, the total amount of old notes of value of Rs. 12.44 lac crore has been deposited by the customers till 10-12-2016. Banks started accepting deposits from 10 November but within a period of 15 days approximately half money has been received by the banks.

Digital Transaction Management (DTM) is a category of cloud services designed to digitally manage document-based **transactions**. DTM removes the friction inherent in **transactions** that involve people, documents, and data to create faster, easier, more convenient and secure processes.

This paper is about the impact of ‘Go Cashless policy’ or Digital Transactions especially on Indian Rural Area with reference to the time period after Demonetisations.

Index Terms- Demonetization, Cashless Transactions, Cash Crunch, Digital Economy.

I. OBJECTIVES

1. To know the impact of cashless transactions
2. To study the impact of demonetization on agricultural sector and farmers of rural India.

II. RESEARCH METHODOLOGY

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

III. IMPACT OF DIGITAL TRANSACTIONS

The Indian Economy which was billed as the “fastest growing major economy” in the world and the “only bright spot” among Emerging Markets seems to have slowed down even before the latest “shock therapy” of

International Conference on "Recent Trends in Technology and its Impact on Economy of India"

Guru Nanak College for Girls, Sri Mukstar Sahib, Punjab (India)

(ICRTTIEI-17)

24th October 2017, www.conferenceworld.in

ISBN: 978-93-86171-74-0

“demonetization”. Indeed, the recently released growth figures from the CSO or the Central Statistical Office considered to be the official department that releases projected, and actual growth figures (apart from the RBI or the Reserve Bank of India and the Finance Ministry) hints at a slowdown in the Indian economy even during the quarter before demonetization happened.

While this is indeed cause for concern with projected growth figures revised downwards from 7.6 % to 7.1% for the financial year ending March 2017, what is cause for greater worry and even alarm is the view among some economists including the former Prime Minister Dr. Manmohan Singh (who is a reputed economist in his own right) that the current and ongoing attempt to flush out black money would shave a good 2% of the GDP or the Gross Domestic Product.

Indeed, some think tanks and research institutes such as Ambit Research have given even more dire assessments with their projections of growth figures tending to be in the less than 3% range. Of course, the consensus view among many economists is that while there would be indeed a noticeable slowdown in the economy for a “quarter or two”, most of them seem to agree that growth would indeed bounce back and the Indian economy would regain its momentum as well as turnaround with a renewed sense of vigour due to higher tax revenues.

Having said that, one must keep in mind the fact that as per the recent estimates by some economists, **nearly 90% of the total cash in circulation has come back into the banking system** and hence, the stated purpose of the Demonetization exercise which was to “extinguish” black money and enable the RBI to lower its liabilities thereby providing the government with a huge dividend seems to have been belied. Of course, there are some who now argue that the Indian Banking System is now “flush with cash” and this has enabled the government to “nudge” the RBI to cut rates as well as to allow banks to pass on the benefit of ample liquidity to consumers by lowering lending rates.

However, the flip side of this has been that banks have cut their deposit rates as well which is natural considering that any cuts to lending rates have to be accompanied by cuts to deposit rates. This has resulted in a situation where banks with enough deposits seem to be encouraging spending more than saving and this can indeed create demand in the system since more money with consumers means more spending thereby leading to an uptick in sales of goods and services and which has the “multiplier effect” of resulting in more growth.

On the other hand, **with more taxes being collected due to higher deposits in banks that can be taxable as well as increased compliance due to greater scrutiny and oversight by the IT (Income Tax) Department**, the government too might be tempted to announce lower rates for taxes and other aspects of what are known as fiscal measures. In this context, it is worth remembering that fiscal stimulus which is by lowering taxes and providing more incentives to consumers as well as producers by boosting supply can be complemented and supplemented by the monetary stimulus which is by boosting demand for goods and services by lowering lending rates thereby putting more money in the hands of consumers.

As economic theory states, both fiscal and monetary stimulus can be implemented in isolation or taken together and hence, the Demonetization or the DeMo as it is being called might indeed act as a catalyst for growth. Having said that, one must remember that India is primarily a cash transaction based economy and hence,

International Conference on "Recent Trends in Technology and its Impact on Economy of India"

Guru Nanak College for Girls, Sri Mukstar Sahib, Punjab (India)

(ICRTTIEI-17)

24th October 2017, www.conferenceworld.in

ISBN: 978-93-86171-74-0

removing 86% of the money in circulation is indeed a “brave” move since there are reports that large sections of the informal economy have come to a grinding halt.

Moreover, **there are also reports of farming sector taking a hit due to lack of cash as well as sales of automobiles and other capital goods falling even though inventories are building up.** Thus, it remains to be seen as to how the growth figures for the next quarter and the overall financial year turn out to be. Given that mainstream economists tend to debate and argue both sides with equal passion and vigour, it is the case that as the cliché goes, the “proof of the pudding is in the eating” and hence, the actual growth figures have to be watched.

Of course, there are other indicators to keep track of as well in the form of various Indices such as the PMI or the Purchasing Managers Index which tracks industrial activity as well as the rates of investment and the credit pickup as well as the Inflation figures. Having said that, one must also note that given the lack of communication about some of the economic indicators from the government is indeed worrying given that Demonetization has been billed as the “Biggest Monetary Experiment” in recent times in the entire world.

The point here is that any such “disruption” must be both communicated and implemented well and given some of the concerns expressed in this regard by many commentators, one must indeed look for “straws in the wind” to make sense of the economic impact of Demonetization on the country.

IV. DEMONETISATION, DIGITAL TRANSACTIONS AND RURAL INDIA

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

Demonetisation has affected every Indian, but it has hit the agricultural sector badly. Agriculture in India accounts for 50 percent of the workforce. Farmers, who are the backbone of our economy, were severely affected by the note demonetization of 8 November 2016. Agriculture is impacted through the inputoutput channels as well as price and output feedback effects. Sale, transport, marketing and distribution of ready produce to mandis is dominantly cash-dependent. Farmers suffered a setback due to nationwide cash shortage and a fall in the demand for vegetables in wholesale markets. . Farmers were not able to purchase inputs like seeds from market. They were using old seeds from the last year harvest and not purchasing new quality seeds from market. In northern Indian states, the crop of rice was prepared. Some of the farmers have sold their crops, and some was in the process. It is true that almost crops are sold in cash the transaction which has been done is cash is to be deposited in the banks and can be withdrawn accordingly. The consumers of rural farmer are not as

International Conference on "Recent Trends in Technology and its Impact on Economy of India"

Guru Nanak College for Girls, Sri Mukstar Sahib, Punjab (India)

(ICRTTIEI-17)

24th October 2017, www.conferenceworld.in

ISBN: 978-93-86171-74-0

advance as the urban middle class, which can be easily managed with a very little amount of cash. The problem of the demonetization is

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

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

V. CONCLUSION

It is found that there is an impact of demonetization on the lives of people in the rural area. Some of the problems they faced during the demonetization were, there was no cash in the nearby ATM and there was only

International Conference on "Recent Trends in Technology and its Impact on Economy of India"

Guru Nanak College for Girls, Sri Mukstar Sahib, Punjab (India)

(ICRTTIEI-17)

24th October 2017, www.conferenceworld.in

ISBN: 978-93-86171-74-0

one ATM per village that too the banks were not filling the cash frequently and it was open for two to three days a week. There was only one bank usable for the nearby 30 villages, so the people in the villages had to wait for five to six hours to exchange/deposit their money.

For the farmers doing agriculture, it was difficult for them to buy seeds, seeds fertilizer and also to give wages to their workers (daily wages approximately 150 per day) and for selling the crops they kept the difficulties on their head by accepting the payment in the form of old currencies in order to avoid the wastage of crops and the planters also facing the similar problem. In the poultry farm, they were doing the transactions in the form of cheque that too it is difficult for them to convert into the liquid cash from the banks. For the retail shop holders, it was difficult for them to buy the wholesale goods and for the vegetable/fruit seller it was difficult to buy the vegetables/fruits from the wholesale market. When comparing the sales data is between before and after demonetization in the retail shops, it was found that there was a huge decrease in the customers. As a result, the earnings also got affected badly. As per the survey, people in the rural areas got affected but they still supported the demonetization step taken by the government. In their perception, it is only a temporary issue and they believe that it will eradicate black money from the country and they are ready to struggle for it.

REFERENCES

- [1] Impact of Demonetization on India and Investments <http://marketrealist.com/2016/11/can-demonetization-impact-indianeconomy/>
- [2] <http://www.indianeconomy.net/splclassroom/309/what-are-the-impacts-ofdemonetisation-on-indian-economy/>
- [3] <http://www.forbes.com/sites/wadeshepard/2016/12/12/one-month-in-whatsthe-impact-of-indias-demonetization-fiasco/>