

DEMONETIZATION OF Rs. 500 & Rs. 1000 NOTES IN THE YEAR 2016 - A REVIEW

***Ms. P. Kavya**

****Mr. A. Kanauja Achary**

Demonetization is one of the weapons to counter the menace black money. In India the currency was demonetized first time in 1946 and second time in 1978 without getting any substantial benefit. On 8th Nov. 2016 the currency is demonetized third time by the present Modi government that stopped the circulation of all 500 and 1,000 banknotes. Soon after, new notes of Rs. 500 and Rs. 2000 notes were pumped into the economy. The demonetized currency has valued for 86% of the money supply and it was recycle through banks, either to be exchanged in limited numbers for the new Rs 500 and Rs 2,000 notes or to be deposited into banks. **This paper analyses the post-amendments made regularly after 8 Nov 2016 and explores the opportunities and challenges of a digital economy.** Of late, many programmes and initiatives have been taken by the Government of India to make a smooth transition towards a cashless society. However, at the same time, the constraints towards this move are quite enormous to restrict India but it is apparent that the Government's recent policies have put India on board for a less-cash dependent society. This is a theoretical review article and the analysis is based on secondary data that were collected from various published sources like reports, magazines, journals, newspapers and different research articles.

Keywords: Demonetization, digital economy, cashless society, opportunities and challenges.

***Ms. P. Kavya** , A student of ASTHA School of Management, Bhubaneswar, Email : kavyapatnana3@gmail.com

****Mr. A.Kanauja Achary**, A student of ASTHA School of Management, Bhubaneswar, Email : kanojachary333@gmail.com

The flashback:

The Union cabinet was intimated about the plan on 8 November 2016 in a meeting in the evening called by the Indian Prime Minister. Just after the conclusion of the meeting, the prime minister had announced the demonetisation in an unscheduled live national televised address at 20:15. He declared that the circulation of all 500 and 1,000 banknotes of the Mahatma Gandhi Series would be invalid, effective from the midnight of the same day, and announced the issuance of new 500 and 2,000 banknotes of the Mahatma Gandhi New Series in exchange for the demonetised banknotes.

Just before this lightning stroke hit by PM, cash transactions had flowed freely in the economy because of post Diwali bash. Now suddenly, cash utilisation grounded to a temporary halt. The incumbent Government has demonetized Rs.500 and Rs.1,000 denomination notes in circulation and opened the pandora's box in the form of reforms that directly addresses the common man, economy, business and global relations. In his speech, the PM stated that the government had taken a number of steps to promote inclusive economic growth in all sections of the society through various measures such as the Jan Dhan Yojana (for inclusive banking); Jan Suraksha Yojana (insurance for the poor at INR 12 or INR 365 per year); Mudra Yojana (business loans for small enterprises); Stand-up India (for entrepreneurs in the Scheduled Castes and Scheduled Tribes categories, and, women); Ujwala programme (for cooking gas connections to the poor); e-NAM (the online National Market Place for farmers)

In lieu with this announcement, cash transactions suffered a severe setback. Citizens were allowed to deposit the demonetised currency notes in their bank accounts up to 30th December, 2016, with the facility to withdraw money as per their need. To meet peoples' immediate need for cash, an exchange of demonetised currency (up to a limit of INR 4,000) was allowed at banks and post offices by producing identity documents such as the Aadhar card, PAN card, voter card, ration card, driving licence, or passport. Until the circulation of new currency notes was adequate to meet the present population, a

withdrawal limit was fixed at INR 10,000 per day, and INR 20,000 per week. While withdrawal of new notes was restricted, demonetised currency (subject to maintenance of proper records of stocks and collections) was allowed at: government hospitals, pharmacies in government hospitals, for purchase of railway, airline and government bus tickets, purchase of petrol, diesel and CNG, at milk booths, consumer cooperative stores authorised by the state or central governments, cremation and burial grounds. As the economy and people grappled with the consequences of this sudden move, a narrative in support of 'Digital India' was built, with the PM repeatedly stressing that there were no restrictions on non-cash payments by cheques, demand drafts, debit/credit cards, electronic fund transfers, etc. Acknowledging the public's suffering, in the short-term and on account of the abruptness of the decision, he requested people to bear with it, explaining that secrecy had been necessary to ensure the success of demonetisation.

However, demonetization of higher valued notes and cashless transaction are the two sides of a coin .It is very difficult to achieve them separately.

Demonetization that happened on 2016 still haunts the Indian economy.

Post-Amendments made regularly after 8 Nov 2016

“Prime Minister has declared existing currency valued up to Rs 4,000 can be altered through banks. The ATM withdrawal was restricted to a maximum of Rs 2,000. Weekly withdrawal limit from Bank was restricted up to Rs 20,000 in a with a daily cap of Rs 10,000”.

Action Replay:

NOVEMBER 13

“The exchange limit was extended to Rs 4,500 from Rs 4,000”.

“Withdrawal through ATM was raised to Rs2500/- from Rs2000/-

NOVEMBER 15

Banks have directed to use indelible ink marks on customers as a mark of demarcation as people have evaluated multiple ways to exchange their old currency beyond the prescribed limits of the Bank.

NOVEMBER 17

Observing the practices of people to exchange the black and undisclosed money by hiring other people, the authority again lowered the limit of exchange from Rs2500 to Rs 2000.

However a relaxation was made for Farmers and Farm traders as they were permitted to withdraw Rs 25,000 and Rs50,000per week respectively.

For wedding awaited families their limit was upto Rs 2,50,000 from their bank accounts”.

NOVEMBER 24

“This day saw halt on exchange of old currency”.

NOVEMBER 28

“Reserve Bank of India has made it free on withdrawal limit but the limit for depositing new notes in the accounts have remained same at Rs 24,000 per week”.

DECEMBER 15

Submission of PAN card or Form 16 was made mandatory for deposits on or above 2lakhs and a total balance of 5 lakhs since 8th Nov. 2016.Any withdraw/transfer of funds from these accounts without presenting the above documents was restricted.

DECEMBER 19

The RBI accept any deposits of demonetised Rs 500 and Rs 1,000 notes in excess of Rs 5,000 only once up to December30, but after went through a detailed and thorough investigation.

This was in contrast to the earlier notification of the Govt., in which assurance was made to deposit money for no. of times till 30th December.

DECEMBER 21

“The 8th November 2016 was a shock for the Indians when the government has declared Rs.500 and Rs.1000 as illegal tender.

Observing the opposition from all quarters, the RBI had decided to withdraw the circular for KYC-compliance on accounts that prevent customers from depositing over Rs 5,000 in old currency more than once till December 30”.

The Period of Settlement:

❖ Recalibration

The recalibration is a process which the cash settlement in the ATM that holds cash are modified to suit the size of the currency.

If we take an example of country's largest lender state bank of India is yet to recalibrate 18,135 ATM's even after 21 months of demonetization.

❖ Cash Deficit

The government gave people a period of around 2 months to deposit all currency notes of the said denomination with any bank to cope up with the changes and to eradicate cash deficit.

How people coping with digital payment system?

It was connoted that the cash may no longer enjoy the status of a king. While one has to wait for the serpentine queues at ATMs to peter out and currency notes of Rs 100 denomination to become easily accessible again, the need for using digital payment platform was felt by increasing no. of people.

To overcome the cash crunch situation people from every strata of life are in a hurried mood to adhere to digital payment platform

Debit cards, e-wallets and other digital platforms are witnessing a surge in volumes in many areas.

Though cash is still king in many places and debit/credit cards make for their own domination, the level of convenience of digital payments has its own niche, **thanks to the disruption of digital wallets like these:**

Paytm

Incorporate in 2010 by Vijay Shekhar Sharma, it act as seat anchor to bridge the void for the past three years.

In 2017, it accelerated the gear to reached the top Rank as a mobile wallet provider. This year it also became the country's first-ever payments app that had crossed 100 million downloads.

As of July 2018, it has crossed an annual rate of five billion transactions a year, with \$50 billion in annual gross transaction value.

Google Pay

This payment platform has garnered more than 65 million monthly active users (MAUs) with digital transactions worth \$110 billion inside India. Recently, it has extended its App named as Google Pay for businesses to facilitate direct business transaction through digital platform.

PhonePe

A payment company Founded combinedly by- Sameer Nigam, Rahul Chari and Burzin Engineer, of Flipkart with head quarter at Bengaluru, it reached an offline merchant base

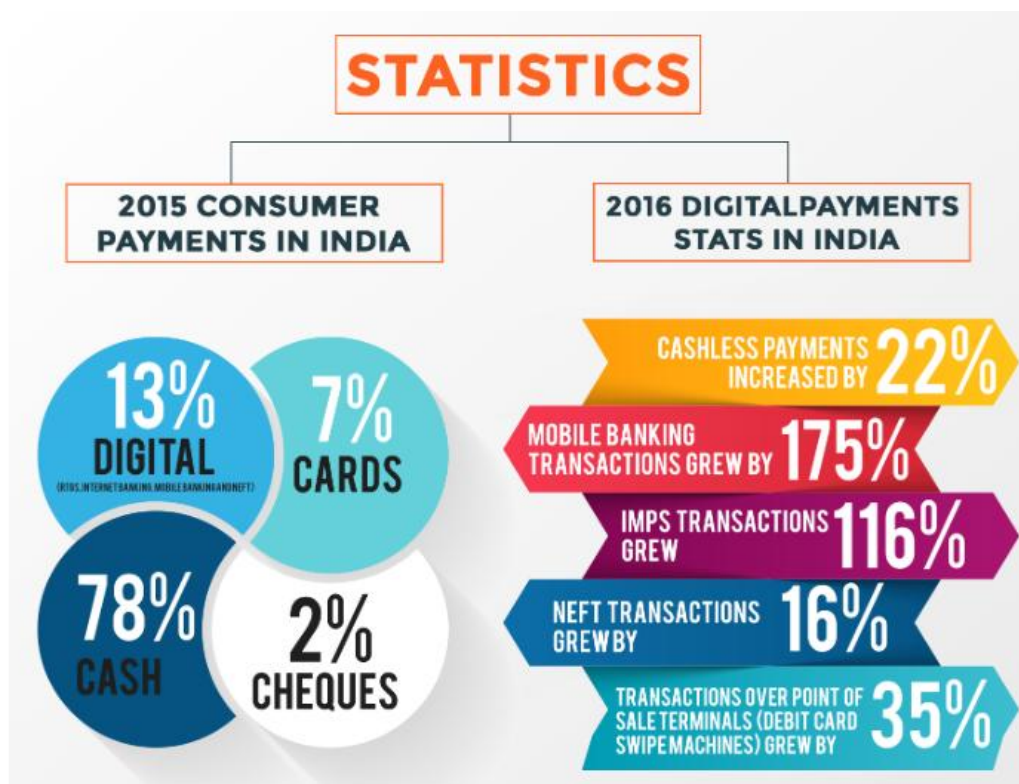
of more than five million which was magnified by a rapid increase from January 2019, when the total offline merchants on the platform stood at 1 million, which crossed three million in April.

MobiKwik:

A payment platform claim to have a user base of more than 107 million, with an objective to accomplish a target of more than 200 million users by the end of FY 2020, and provide at least three financial services in their platform.

Amazon Pay:

A first moving payment platform posing challenges for Paytm, Phonepe. It has launched its payment wings in 2016. Since then it has been doing business worth 2771 crore as per the Toffler's business intelligence.

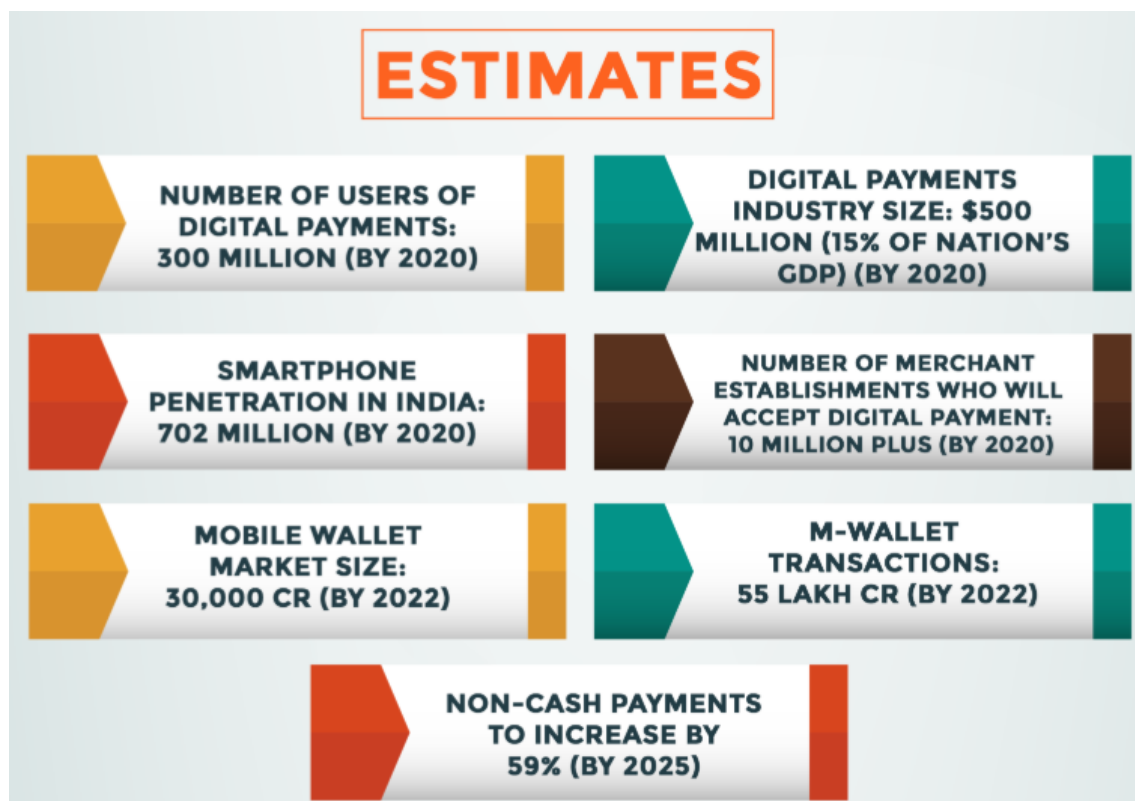


The above statistical data shows that how the non-cash transactions or digital payment hiked in a year after post-demonetization.

The Road Ahead (2019)

Digital user may grow up

- Banking Cards
- Net Banking
- Mobile Wallet
- UPI(Unified Payments Interface)
- USSD(Unstructured Supplementary Service Data)
- AEPS(Aadhaar Enabled Payment System)



Conclusion:

With the help of demonetization our country is going to become a flexi-smart economy. The pioneering wave of demonetization move has now started dribbling in with more and more people switching to digital modes of receiving and making payment. The whole country is undergoing the process of modernization in money transactions, with e-payment services gaining unprecedented momentum. A large number of businesses, even street vendors, are now accepting electronic payments, prompting the people to learn to transact in the cashless way at a faster pace than ever before. Demonetization spearheaded in bringing digitalization and financial planning into the economic forefront. However, India has withstood the immediate chaotic impacts of demonetization and it is evident that the returns of the hardships will begin to show in the days to come with vivid array of acceptance in digital arenas and make the people more advance and accommodating towards change.

Reference:

1. Demonetisation: What India gained, and lost, Prabhash K Dutta, New Delhi, August 30, 2018 <https://www.indiatoday.in/india/story/demonetisation-what-india-gained-and-lost-1327502-2018-08-30>
2. Two years of demonetisation: What did the fight against black money achieve? Mudit Kapoor New Delhi , November 8, 2018, <https://www.businesstoday.in/current/economy-politics/what-has-pm-modi-done-to-fight-black-money-an-explainer/story/280890.html>
3. India's history with demonetisation: From 1946 to 2016, Sonali Pimputkar, Friday, December 16, 2016, <https://www.freepressjournal.in/cmcm/indias-history-with-demonetisation-from-1946-to-2016>
4. Demonetisation of Rs. 500 and Rs. 1000 notes: RBI explains, December 09, 2016
5. <https://www.thehindu.com/news/national/Demonetisation-of-Rs.-500-and-Rs.-1000-notes-RBI-explains/article16440296.ece>
6. Demonetisation in India: Success or failure? Nafis Alam, <https://www.weforum.org/agenda/2017/02/demonetisation-in-india-success-or-failure>