

Impact of Demonetization on Rural Sector

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Abstract: *Demonetization is the process by which a currency will not be a legal tender. There may be various reason of demonetization such as black money, corruption, introduction of new currency etc. So the old unit of currency must be retired and replaced with a new currency unit. In India on 8th November 2016, our Prime Minister Narendra Modi declared demonetization of 500 and 1000 rupee notes and issuance of new 500 and 2000 rupee notes that affect the rural sector very much. This research paper is based on secondary data. The purpose of this research is to find out the impact of demonetisation on rural sector.*

Key words: *Demonetization, rural sector, impact.*

Literature Review

On 8th November 2016, our Prime Minister Narendra Modi declared demonetization of 500 and 1000 rupee notes and issuance of new 500 and 2000 rupee notes. The implementation of demonetization is done in following manner-

- Use of old currency notes has been allowed for few days in hospitals, medical stores, petrol pumps, gas agencies etc.
- Exchange and deposit of old 500 and 1000 rupee notes has been allowed till 31st Dec 2016.
- Certain limits for cash withdrawals and cash exchange have been set because if the limits have been kept at a higher level, there were chances that the recycling of black money might begin.
- No limit has been decided to deposit cash in bank.

Demonetization is an appreciable effort against black money, corruption and counterfeit notes and around 86% of total currency was in form of 100 and 500 rupee notes so our country for a short period of time now facing the problem of cash crunch.. In India where about 70 percent of population lives in rural area and their most of the transactions are based on cash, so demonetization affected to rural economy very much. It affected a lot to rural sector, right now they are facing lots of problems however ultimately they will also get benefits of it in various forms. Demonetization affected more to rural areas in comparison to urban areas because in rural areas most of the transactions depend on cash, these people don't depend much on debit cards, credit cards, internet banking and payment through various e-wallets such as paytm. Besides this in rural areas there are few banks which have adequate supply of money and rare ATMs in working condition. Several bank branches are still not receiving adequate cash in rural areas then how can public get cash. Exchanging Notes was a major challenge in rural areas, people are standing for long hours in queue for withdrawing cash and to some people still have to back home empty handed after standing long hours in a queue. According to a December 2015 Reserve Bank of India reports on "Financial inclusion in India" each rural and semi-urban serves 12,863 people compared with an urban and metropolitan branch which serves just 5,351 people. The number of ATMs are also very few in rural areas as comparison to urban areas.

The impacts of demonetization on rural sector are as follows-

- In rural areas labour are suffering due to non-availability of work because people stopped hiring labour as they are not able to pay them daily in cash. So labours due to non-availability of work are not able to eat food two times a day.
- Farmers are postponing their work because due to cash crunch they are not able to work and without cash labourers are not ready to do work.
- Some poor people in rural areas do not have bank accounts. So opening bank account, exchanging and depositing of money is a big task for them when there is a long queue in front of bank.
- Farmers make most of the transactions in mandis through cash; they don't accept cheques because they can't trust on unknown persons. So due to lack of cash they are not able to sell out their goods in mandis.
- Demonetization happened in mid of kharif crop so farmers were not able to sell crop in market.
- Farmers were facing problem of cash for sowing seeds at the time of Rabi crop season although government have allowed farmers to withdrawal up to 25,000 rupee per week to sowing rabi crop but the farmers who do not have KCC are not able to withdrawal from bank.
- Now people in rural areas have also started usage of debit and credit cards, e-wallets and online transactions through internet banking due to cash crunch. This will shift India towards cashless economy.
- Few people in rural areas did not have PAN card and now PAN card is compulsory for transactions above Rs. 50,000. So those people who did not have PAN card first of all they have to make PAN card, then they were able to exchange or deposit old currency notes but the best part is that right now people most of the people have PAN cards.
- Some people in rural areas did not have bank accounts, they kept all their savings in the form of cash but now due to demonetization they have opened bank accounts.
- Rate of interest has been decreased 3 % on loan for farmers up to the amount of 2 lakh.
- Krishi Cards have been converted to rupee credit card now farmers can make transaction directly through this card. Now they will not have to rush to bank for withdrawal of cash and also will not have to pay commission to anyone.

All these are the short term impacts of demonetization, some of these are positive and most of them are negative but in long term it will be very positive for rural areas as now government has abundant money in banks that government will use for betterment of rural areas also such as-

- The bank interest rate will start decreasing.
- The government can complete the pending electricity projects so that rural area people can get more electricity as comparison to now.

- Government can complete pending irrigation projects for the benefits of farmers.
- Government will be able to build new cold storage.

Research methodology:

The Paper is an explorative study based on Secondary data, reviewing various literatures available. Secondary data was collected from various magazines, marketing books, newspapers and literature available on internet.

Findings:

demonstration process is like a two faces of a coin because one side it will benefit the nation and other side it's going to create some temporary and long term problems, we ll discuss each side of coin one by one :

Benefits for the nation.

1. Possible to stop counterfeit currency using for the terrorism activity.
2. Black money : by demonstration of higher currency suddenly it will take out illegally stored money from the holders.
3. Transparency: moving towards digital economy may bring the transparency in the system.
4. Easy monitoring: digital payment easy to monitor cash flow.
5. Less chance of avoiding the taxes.
6. Transparency in the system will bring more invest from the foreign countries.

Drawbacks

1. Losses to small vendors trade because of cash crunch(violation of article 19 of the Indian constitution)
2. Many people died because some hospitals not accepted old money and rejected treat them.
3. Repeatedly changes in the rules and misleading to the people
4. Many people do not have bank accounts in rural areas and hilly areas.
5. Lots of daily basis labours removed from the work

Conclusion

So in short we can say that in short term people especially rural areas people have faced lots of problems due to demonetization but the abundant money collected through demonetization that was in the form of black money will be used ultimately for the development of India, will prove beneficial to every citizen of India.

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