Demonetization in India: Issues and Challenges

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Abstract:

Demonetization is the legal process of devaluing a piece of currency or changing the value of a particular denomination of currency to nil. India has great history of demonetization from 1946. Rs 1,000 and higher denomination notes were first demonetized in January 1946. The highest denomination note ever printed by the Reserve Bank of India was the Rs 10,000 note in 1938. Again, higher denomination banknotes of Rs 1,000, Rs. 5,000 and Rs 10,000 were reintroduced in 1954 and all of them were demonetized in January 1978. Rs 1,000 note came back in November 2000. Rs 500 note came into circulation in October 1987 as an attempt to contain the volume of banknotes in circulation due to inflation.

Similarly, the Government of India on the 8 November 2016 announced demonetization of Rs 500 and Rs1000 banknotes with effect from the same day's midnight, making these notes invalid. Apart from combating black money, the stated purpose is also to check fake currency (used to finance terrorism) and corruption. A new redesigned series of Rs 500 banknote, in addition to a new denomination of Rs 2000 banknote is in circulation since 10 November 2016.

Though demonetization is not new in India, this 2016 effect of demonetization has drastic effect on people. This may be due to lack of proper planning and sudden introduction. It was announced that the higher income people would be affected seriously since the higher denomination has been demonetized but reality remains contradictory to it. The middle and low income people suffered a lot. The small retail shops and street vendors thrive on cash flow and don't really have the facility of Swipe Machines are hit in large. Real Estate is a known fact that a big chunk of real estate runs on cash most of it in black as well.

The study aims in understanding the issues and challenges faced by 250 residents of Bengaluru due to demonetisation in India. The sample was selected using simple random sampling method in the city. The study involves a descriptive design and quantitative approach among 250 residents of Bangalore. The data was collected through semi-structured interview schedule. The data had been analyzed using SPSS (version 20). The higher analysis includes independent sample t test, one way ANOVA, Chi-square and correlation

The impact of demonetization has been measured with special reference to the health problems due to long duration of standing in queues, financial deficit and the stress caused due to the problems in the banks and ATMs. Understanding about the demonetization among the respondents was measured using their attitude towards the demonetization. The results divulge among the respondents felt that lower income families (55.4%) are affected than middle (39.3%) and higher (5.4%) income families. More than half (59.5%) of the respondents were using cash mode to buy materials in the market while 25.6% of them use debit cards. Few (5.4%) use both modes at the same time about 9.5 % of them use neither mode. Majority (69%) of the respondents spent more than two hours in the queue to collect money in banks. More than half of the respondents thought that low income families (55.4%) and middle income families (39.3%) are affected more than that of the upper income families.

Key Words: Demonetisation, Income groups, Issues and Challenges, Banking in Bangalore, Money Management, Health Issues.

Introduction

The official currency of Republic India remains as Rupee (INR). The Reserve Bank manages currency in India under Reserve Bank of India Act, 1934 which decides the denomination of currency notes in practice. Demonetization is the legal process of devaluing a piece of currency or changing the value of a particular denomination of currency to nil. India has great history of demonetisation from 1946. Rs 1,000 and higher denomination notes were first demonetized in January 1946. The highest denomination note ever printed by the Reserve Bank of India was the Rs 10,000 note in 1938. 5,000 and Rs 10,000 were reintroduced in 1954 and all of them were demonetized in January 1978. Rs 1,000 note came back in November 2000. Rs 500 note came into circulation in October 1987 as an attempt to contain the volume of banknotes in circulation due to inflation.

Similarly, the Government of India on the 8th November 2016 announced demonetization of Rs 500 and Rs1000 banknotes with effect from the same day's midnight, making these notes invalid. Apart from combating black money, the stated purpose is also to check fake currency (used to finance terrorism) and corruption. A new redesigned series of Rs 500 banknote, in addition to a new denomination of Rs 2000 banknote is in circulation since 10th November 2016.

Though demonetization is not new in India, this 2016 effect of demonetisation has drastic effect on people. This may be due to lack of proper planning and sudden introduction. It was announced that the higher income people would be affected seriously since the higher denomination has been demonetized but reality remains contradictory to it. The middle and low income people suffered a lot. The small retail shops and street vendors thrive on cash flow and don't really have the facility of Swipe Machines are hit in large. Real Estate is a known fact that a big chunk of real estate runs on cash most of it in black as well. However, demonetization plan made country's citizens face lot of pain due to those long lines in the queues, hurdles in everyday life, constraints in the finance; especially those employed find it difficult to exchange currencies.

Bengaluru is a metropolitan city, a silicon hub of India, the capital of Karnataka, provides shelter to large variety of people of not only Indian states, but also the people of the world courtiers with all range of income groups. Bangalore is one of the densely populated city providing opportunities to vast number of people ranging from literate to illiterate and all belts of the nation. This article strives to understand the issues and challenges come crossed by the people over here due to the sudden effect of demonetisation on November 8, 2016.

   ▪ **Review of Literature**

The literature that underlies the demonetization issues in India are as follows;

Mukhrjee (November 2016) studied about the impact of the present government move for demonetization on the credit availability, government finance, spending and levels of various activities. The researchers stated that in a very short period there would be more serious affect on persons earning income in cash as well as spending in cash while impact will be up to a lesser extent on those earnings in non-cash form but spending in cash. Each sector backing demand by cash along with the real sector especially the unorganized one will much adversely effected in very short run time. In case of short term effect having complete replacement, an immense strengthening of informal sector credit market would be seen in the rural market and there would be adverse affect on construction sector. The medium term impact would produce results in terms of enhancements in deposits in the economy.

Mohd. (November 2016) studied about the significance as well as challenges of demonetization of currency notes. Secondary data was used for this study collected from various newspapers as well as websites. The researcher concluded through the study made that no doubt this move was going to disturb the routine life of 'Aam Aadmi' (common man of India) influencing largely the unorganized sector including

organized sector up to a limited extent but the real consequences of move will have bigger implications on the Indian economy as a whole in the long run.

Sunita (September 2014) in her research study attempted to get insight about the reasons as well as measures adopted by the government on demonetization that was implemented in Indian context. It was a conceptual study based on secondary sources. She concluded that the enhancing trade deficit, 1965's war between India and Pakistan, gulf war, political as well as economic stability, dwindling foreign exchange reserves, withdrawn of FII's (Foreign Institutional Investors) and strengthen of dollar were the key reasons behind the move for demonetization by the government in India and the measures adopted by the government included imposition of quantitative restrictions, provision for export subsidies, establishment of dual exchange regime, adoption of floating exchange rate system, increase in FII's limit, enhancement of ceiling up to a limited time frame, use of some proportion of borrowed funds overseas for the domestic expenditure, withdrawn of rebooking of forward contracts post cancellation and reduction of NOOPL (Net Overnight Open Position Limit).

Deodhar in his research study visualized the concept of black money and demonetization including its form as well as the consequences and role of demonetization as a mechanism to get tackle on black money. At global level, the researcher found out that voluntary compliance played significant role than the enforcement. To have loyalty as well as trust in the tax system among your citizens was the basic priority to be focused on it was also recommended to have a monitoring mechanism based on risk and the other key element was the coordination among education system and revenue department along with other things. The researcher also mentioned about some principles to tackle black money and those principles included removal of systematic pain leading to origination of black money at its very first place, enhance the cost for converting legitimate money into cash, systematic regulations making it easy for the participants involved in value chain to accept e payments (electronic/online payments), implementation of mechanism to ensure safety of money for those who indulged in investing for finance black money friendly sectors, establish identity of persons as well as e-register of assets, creation of attribution chain meant for funds entering as well as exiting the country and creation of e-trails for both income as well as expenditure.

Ross M Star (2016) study on 'General Equilibrium Approaches to the Study of Monetary Economies: Comments on Recent Developments' explained the role of money in allocation over time and the usefulness of money as a medium of exchange. He explains the positivity of the price of money, inter-temporal monetary economies and bilateral trade with money as a medium of exchange.

Shweta Mehta, Kruti Patel and Krupa Mehta (2016) study on 'Demonetisation: Shifting Gears from Physical Cash to Digital Cash' highlights the advantages of demonetization with lights on the alternatives of physical cash payments such as online bank transfer, e- clearing, e- KYC, digital locker and Unified Payment Interface.

Deepa Krishnan and Stephan Siegel (2016) study on Effects of Demonetization: Evidence from 28 Slum Neighbourhoods in Mumbai to examine the immediate and short term impact of demonetization in slums. The study shows that the policy led to drop in income, with an average drop of about 10% of families' monthly income. The effect varies significantly between those receiving a regular salary and those not. The income drop is associated with a drop in consumption as well as changes in family savings in November.

Dinesh Kumar Gupta's (2016) article on 'Demonetization In India 2016--Mother Tongue Friendly E-delivery Banking Channels For Cashless Growth' explains in detail about the e-delivery channels of banks and the factors that affect it in common which includes the security concerns by banks in use of ADCs/Digital Products and second factor authentication (2FA) in use of digital products.

- ▪ **Research Methodology**

The study aims in understanding the issues and challenges faced by residents of Chennai due to demonetisation in India. The sample was selected using simple random sampling method in the city. The study involves a descriptive design and quantitative approach among 250 residents of Bengaluru City. The data was collected through semi

structured interview schedule. The data had been analyzed using SPSS (version 20). The higher analysis includes independent sample t test, one way ANOVA, Chi-square and correlation.

▪ Analysis of Data and Results

A. Profile of the Respondents

The socio-economic profile of the respondents Table 1 depicts that about 70.8% of the respondents were male and 29.2% of the respondents were female. Age of the respondents ranges from 28 to 65 years. Educational level of the respondents ranges from illiterates (13.1%), high school (30.4%), higher secondary (9.5%), degree (12.5%), post graduation (22%), diploma (8.3%) and professional (4.2%). About 52.4% of the respondents were employed while the rest were unemployed. About 66.7% of the respondents belong to Hindu religion, 15.5% belong to Christianity, 13.1% were Muslims while 4.8% of them not affiliated to any religion. More than half (56.5%) of the respondents belong to backward class, 3.6% belong to most backward class, 16.1% of the respondents belong to schedule class and 19% were other classes while 4.8% of them are not affiliated to any caste. About 47.3% of the respondents' income was below 10,000 while 40% with above 20,000 and the rest earn between 10,000 and 20,000. About 44.6% of the respondents belongs middle income status, while 38.7% lies below poverty line while the rest were upper income class.

B. Impact of Demonetisation

The impact of demonetisation has been measured with special reference to the health problems due to long duration of standing in queues, financial deficit and the stress caused due to the problems in the banks and ATMs. Understanding about the demonetization among the respondents was measured using their attitude towards the demonetization. Table 2 depicts that more than half (52.4%) of the respondents are unaware about the demonetization while the rest were aware about it. More than half (59.5%) of the respondents were using cash mode to buy materials in the market while 25.6% of them use debit cards. Few (5.4%) use both modes at the same time about 9.5 % of them use neither mode. Majority (69%) of the respondents spent more than two hours in the queue to collect money in banks. More than half of the respondents thought that low income families (55.4%) and middle income families (39.3%) are affected more than that of the upper income families.

The impact of hypothesis has significant difference between the gender has been tested using t-test Table 4 divulges that health issues due to the demonetization has significant difference between the male and female respondents by rejecting the null hypothesis (0.007) at 0.01 statistical significance whereas the other components of the impact had been not significant and accepts null hypothesis showing that there is no significant difference between the gender in the impact of demonetisation.

The impact of demonetization with respect to caste and income has been tested using one way ANOVA (Table 5). The results depict that there is significant (0.021) difference between different castes in the attitude towards the demonetisation by rejecting the null hypothesis, the sufficiency of money during the demonetization differs based on the individual (0.043) and family income (0.050) by rejecting the null hypothesis.

The Table 6 shows the correlation matrix of the respondents showing the highly correlated variables. There is a positive correlation ($p < 0.01$) between religion and gender, education, caste and attitude towards demonetisation. Similarly, the income is correlated with family income, number of family members is correlated with socio economic status of the respondents and the attitude towards demonetisation is highly correlated with awareness on demonetisation, sufficiency of the money during demonetisation and health issues due to demonetisation. Education is positively correlated ($p < 0.05$) with gender and number of family members. At the same time, there is a negative correlation ($p < 0.01$) between gender and income, age and number of family members and caste and socio-economic status. Time spent in queue is negatively correlated ($p < 0.05$) with religion and caste. It is also negatively correlated ($p < 0.05$) between gender and health.

▪ Discussion

Demonetisation in India had been come into effect after 30 years since 1987. The sudden introduction of demonetisation has made the people from all belts to struggle. The struggle has not only among the citizens, there came exist lots of queries and operational difficulties in banks too which caused stress among every citizens.

The sudden decision however, planned to check the fake note and to bring out the black money but, rather the low income families and the street vendors who depend on cash for their everyday livelihood had been affected badly. It is not only the cash deficit but also the deficit in the health due to long queues in the banks and the ATMs. The study showed that the lower and middle income people are worst affected indefinitely by the demonetisation and were unaware of the process of demonetisation at full extent.

▪ Conclusion

Though demonetisation came into effect for the goodness of India, it failed to find its purpose rightly. This may be due to the sudden, unplanned strategies undertaken for demonetisation. The lower and middle income societies which depend on their daily livelihood through small ventures staged like anything due to the deficit in cash and unavailability of the swipe machines. This enhances the big business ventures with facilities of swiping machines which pushed the people to buy their things there with or without their likeliness as a strategy to manage money deficit or to get change for the new 2000 currency notes.

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Appendix-I
Table 1: Socio-Economic Profile of the Respondents

Socio-economic profile		Frequency	Percent	Stat.Sig.
Gender	Male	177	70.80	0.000
	Female	73	29.20	Sig**
	Total	**250**	**100.00**	
Age	28	11	4.20	0.028
	29	12	4.80	Sig*
	32	21	8.30	
	34	12	4.80	
	38	36	14.3	

	40	24	9.50	
	42	12	4.80	
	43	19	7.70	
	45	21	8.30	
	48	19	7.70	
	50	11	4.20	
	55	20	8.30	
	60	12	4.80	
	65	20	8.30	
	Total	**250**	**100.00**	
Educational Level	High School	76	30.4	0.000
	Higher Secondary	24	9.50	Sig**
	Degree	31	12.50	
	PG	55	22.00	
	Diploma	21	8.30	
	Illiterate	33	13.10	
	Professional	10	4.20	
	Total	**250**	**100.00**	
Employment Status	Employed	131	52.40	0.537
	Not Employed	119	47.60	NS
	Total	**250**	**100.00**	
Religion	Hindu	167	66.70	0.000
	Christian	39	15.50	Sig**
	Muslim	33	13.10	
	Not affiliated to any Religion	11	4.80	
	Total	**250**	**100.00**	
Caste	OBC	141	56.50	0.000
	MBC	09	3.60	Sig**
	SC/ST	40	16.10	
	OC	48	19.10	
	Not affiliated to any Caste	12	4.80	
	Total	**250**	**100.00**	
Income	Below 10,000	118	47.30	0.000
	10,000-20,000	32	12.70	Sig**
	Above 20,000	100	40.00	
	Total	**250**	**100.00**	
Socio-Economic Profile	Below Poverty line	97	38.70	0.000
	Middle Income	112	44.60	Sig**
	Upper Income	41	16.70	
	Total	**250**	**100.00**	

Table-2: Impact of Demonetisation

		Frequency	Percent
Awareness on Demonetisation	Aware	119	47.60
	Not Aware	131	52.40
	Total	**250**	**100.00**
Mode of Buying in Market	Debit Cards	64	25.60
	By Cash	149	59.50
	Both	13	5.40
	Neither 1 nor 2	24	9.50
	Total	**250**	**100.00**

Time spent in queues to withdraw or exchange money	Not applicable	03	1.20
	Less than 30 minutes	03	1.20
	30 - 60 minutes	25	10.10
	1 - 2 hours	46	18.50
	More than 2 hours	173	69.00
	Total	**250**	**100.00**
Section of society worst affected by Demonetisation	Low Income Families	139	55.40
	Middle Income Families	98	39.30
	High Income Families	13	5.40
	Total	**250**	**100.00**

Table -3: Descriptive Statistics on Impact of Demonetisation

	N	Minimum	Maximum	Mean	Std.Deviation
Attitude towards Demonetisation	250	9	21	14.83	3.770
Sufficiency of Money during Demonetisation	250	7	14	10.61	1.828
Demonetisation effect on Health	250	3	15	6.90	3.943

Table-4: t-Test for Gender and Impact on Demonetization

	Gender	N	Mean	S.D	Std.Error Mean	t'value	Stat Sig.
Attitude towards Demonetisation	Male	177	14.89	3.752	0.344	0.307	0.939
	Female	73	14.69	3.847	0.550	0.304	NS
Sufficiency of Money during Demonetisation	Male	177	10.56	1.903	0.171	0.552	0.121
	Female	73	10.73	1.643	0.235	0.587	NS
Demonetisation effect on Health	Male	177	7.32	4.166	0.382	2.146	0.007
	Female	73	5.90	3.157	0.451	2.405	$P<0.01$
Awareness on Demonetisation	Male	177	1.51	0.502	0.046	-0.451	0.331
	Female	73	1.55	0.503	0.072	-0.451	NS
Time spent in queues to withdraw or exchange money	Male	177	3.61	0.727	0.067	1.872	0.021
	Female	73	3.35	0.991	0.142	1.650	$P<0.05$

Table-5: ANOVA

		Sum of Squares	df	Mean Square	f	Sig.
Attitude towards Demonetisation	Between Caste	136.969	3.0	45.656	3.348	0.021
	Within Caste	2236.365	164	13.636		$P<0.05$
	Total	**2373.333**	**167**			
Sufficiency of Money during Demonetisation	Between Income	32.469	4.0	8.117	2.518	0.043
	Within Income	525.382	163	3.223		$P<0.05$
	Total	**557.851**	**167**			
Sufficiency of Money during Demonetisation	Between family Income	19.966	2.0	9.983	3.043	0.050
	Within Family Income	531.428	162	3.280		$P<0.05$
	Total	**551.394**	**164**			

Awareness on Demonetisation	Between Income	3.834	4.0	0.959	4.104	0.003
	Within Income	38.070	163	0.234		P<0.05
	Total	**41.905**	**167**			

Table-6: Correlation Matrix

	Gender	Age	Educational Level	Religion	Caste	Income	Family Income	Number of Family Members	Socio Economic Status	Awareness on Demonetisation	Time spent in queue to withdraw or exchange money	Attitude towards demonetisation	Sufficiency of Money during Demonetisation	Demonetisation effect on Health
Gender	1	.029	.165*	221**	.111	-.268**	-.151	.115	-.004	.035	-.144	-.024	.043	-.164
Age	.029	1	0.011	-.008	-.147	.093	.100	-.508**	.052	-.130	.120	-.117	.003	.005
Educational Level	.165*	.011	1	.213**	.084	.155*	.262**	.186*	.119	.022	.146	.002	.122	-.012
Religion	.221**	-.008	.213**	1	.600**	.059	.096	.134	-.007	-.123	-.182*	.207**	.072	-.103
Caste	.111	-.147	.084	600**	1	-.134	-.019	.001	-.205**	-.106	-.177*	.148	-.113	-.109
Income	-.268**	.093	.155*	.059	-.134	1	.533**	.173*	.160*	-.048	-.010	-.033	-.006	.122
Family Income	-.151	.100	.262**	.096	-.019	.533**	1	.057	.142	-.068	.099	.124	-.078	.028
Number of Family Members	-.115	-.508**	.186	.134	.001	.173*	.057	1	.179*	.138	-.092	.061	.022	-.031
Socio Economic Status	-.004	.052	.119	-.007	-.205**	.160*	.142	.179*	1	-.094	.078	-.025	-.157	.035
Awareness on Demonetisation	.035	-.130	.022	-.123	-.106	-.048	-.068	.138	-.094	1	.049	.227**	-.094	-.096
Time spent in queue to withdraw or exchange money	-.144	.120	.146	-.182*	-.177*	-.010	.099	-.092	.078	.049	1	.075	-.094	.064
Attitude towards demonetisation	-0.024	-0.117	.002	.207**	.148	-.033	.124	.061	-.025	.227**	.075	1	.301**	.395**
Sufficiency of Money during Demonetisation	0.043	0.003	.013	.122	.072	-.113	-.006	-.078	.022	-.157*	-.094	.301**	1	.235**
Demonetisation effect on Health	-0.164	0.005	-.012	-.103	-.109	.122	.028	-.031	.035	-.096	.064	.395**	.235**	1

*Correlation is significant at the 0.05 level (2-tiled)

** Correlation is significant at the 0.01 level (2-tiled)

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