

**DEMONETIZATION-CHALLENGES FOR RURAL INDIA****ASHISH KUMAR TRIPATHI**

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**Abstract**

Demonetization is the act of stripping a currency unit of its status as legal tender. When any Government withdraws the legal tender rights of any denomination of currency, it is known as demonetization. In terms of value, the annual report of Reserve Bank of India (RBI) of 31 March 2016 stated that total bank notes in circulation valued to 16.42 lakh crore of ₹ 500 and ₹ 1000 banknotes. As per the press release of RBI dated on 28/11/2016, the total amount of old notes (which are now withdrawn) of value of ₹ 8.11 lakh crore has been deposited by the customers till 27/11/2016. Banks started accepting deposits from 10<sup>th</sup> of November but within a period of 18 days around half money has been received by the banks. The show is still on. But, between this the Government again provided the scheme of pay tax and converts your black money into white money scheme launched.

**Keywords:** Cash Crunch, Liquidity Trap, Demonetization, Chest**Introduction**

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The Prime Minister announced on 8<sup>th</sup> of November, 2016 about the withdrawal of legal tender of ₹ 500 and ₹ 1000 currency note in the late evening. The government claimed that this demonetization is required for the following reasons-

1. For stopping the funding of terrorism.
2. For facing the problem of fake Currency.
3. For making the black money worthless.
4. For reducing the corruption, etc.

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1. **Challenge for a common person of Rural India-** as per the article published in Business Standard on 20 July, 2011, there are only 7% internet banking customers of the banks. Surprisingly only 15% Indians are the active bank customers. Now, after demonetization, several cash withdrawal limits has been implemented by the Reserve Bank of India (RBI) and banking industry is suffering from cash crunch. Government focused on cash less transactions and E-money transfers with the use of Internet banking but it is really difficult for the people of rural areas. One hand they are unaware from the technology and on the other hand they have a fear of cheating.
2. **Challenge for Farmers-** Farmers are the backbone of Indian Economy. This time is very important for the farmers because this the crop time of wheat which is a major crop for all the farmers in this season. Now, there are basically three types of problems which they are facing. One-The weekly withdrawal limit. i.e. ₹ 25,000 per weeks, Two-cash crunch in the banks, Three-the problem of ignorance about daily changing RBI guidelines.
3. **Challenge for Families who have any marriage function before 30<sup>th</sup> December, 2016-**Due to the problem of weekly withdrawal limit they are also sufferer. RBI has revised rule of withdrawal for those families who have the marriage function and extended the withdrawal limit up to ₹ 2, 50,000/- but there is a prescribed format of RBI. Compliance of that is somehow difficult. At the end of the format, one

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legal declaration is given which is more fearful. With the help of this complex form, Bankers are avoiding to pay a sum of ₹ 2, 50,000/-. I had a conversation with many such persons as a sample study that is the head of these families they all told me that they could not get the extended limit. Even people are fighting to get ₹ 25,000.

4. **Challenges for the customers of Regional Rural Banks (RRBs)-** The RRBs are next sufferer of this demonetization. There are some sponsor nationalized banks of these RRBs. For example, in eastern Uttar Pradesh (UP) the Kshetriy Gramin Bank is sponsored by Bank of Baroda (BOB). Now, BOB is giving priority in distribution of cash remittance of new currency to their branches and providing very less remittance to the Kshetriy Gramin Bank. I had a conversation with some of the branch managers (BM) of Kshetriy Gramin Bank. They told me that they are getting ₹ 2, 00,000/- only twice in a week. Even in starting of season of cash crunch from 10<sup>th</sup> of November, they were unable to get remittance for 6 to 7 days. Now, we can feel the pain of customers of Kshetriy Gramin Bank. This became a bank that can only accept deposits but cannot disburse the cash.
5. **Challenges for stopping the funding of Terrorism-**Yes, this is true that funding of terrorism via fake currency may be stopped immediately but the new currency will also be helpful for the terrorist because they have a strong network to channelize the currency.

Now, they can store double currency in same Elmira. Because before some days when some terrorists were killed by Army. Army told that new currency was received from their possession.

6. **Challenges for facing the problem of Fake Currency-** Fake currency is highly circulated in the economy by the anti nation elements. Demonetization will definitely remove fake currency from the economy. But, it will have a short run impact. Because, the expert people will again print the new fake currency. In long-run the problem may appear same as it was before demonetization.
7. **Challenges for making the black money worth less-** Yes, theoretically it seems better that demonetization will help to reduce the black money and I think it may work. But, the new scheme of converting the black money in to white money after paying 50% tax to the Government is a loophole which may bring the situation as previous and the purpose of demonetization will be objective less.
8. **Challenges for reducing the corruption-** I opine that in long run it will not be effective to reduce the corruption. Because, people will not afraid from keeping black money. They will quote the previous experience. People will set an example that we can take advantage of conversion scheme of Government.

### **Conclusion**

Demonetization is good but our financial system should be ready for this change. Especially chest management should be ready

accordingly to crack the liquidity trap. But, in current scenario, we can see that it has been failed at this point. Secondly, when the Government finds anybody with black money, that person must be charged under Indian Penal Code (IPC) as a criminal offence so that nobody could dare to keep black money again in future. But, here the scene is adverse. The Government has provided a risk free gateway to pass the black money. RBI should seize all black money when it is found anywhere and after that at the end of the 31<sup>st</sup> March, 2017 which is the last date to deposit the old notes, RBI can print the currency as per the not realized old notes in terms of value. Under this way, RBI and Indian economy will get more advantage as I opine.

It will be too early to come at any conclusion regarding the success or failure of this demonetization in Indian Economy. But, with the current inputs we can say that Indian Financial System and its regulators were not ready for this change. Due to this, the laymen or the common person including farmers are the sufferers.

### **References**

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