

---

## **Aftermath of Demonetization on Rural Population**

**Dr. Ambalika Sinha<sup>1</sup>**

Associate Professor at Department of Humanities and Social Sciences,  
Motilal Nehru National Institute of Technology, Allahabad

**Divya Rai<sup>2</sup>**

Ph.D Scholar at Department of Humanities and Social Sciences,  
Motilal Nehru National Institute of Technology, Allahabad

### **Abstract**

Declaration of 86 percent of currency notes as illegal tender in just a blink of time on eve of 8<sup>th</sup> November 2016 mandated the creation of immediate interruption in daily lives. The chaos was created in every strata of the society whether upper, middle or lower. Where some welcomed the move as it was seen for curbing black money, many are suffering by this movement. But the supreme sufferers of this move were the informal sector of Indian economy, where cashless transactions are minimal. Informal sectors of Indian Economy includes 106 activities like agriculture, workers in construction, local transport, community services and small workshops like shoe makes and garment makers(*International Conference of Labour Statistics (2003)*), rural populations and the urban poor and middle class. This paper aimed at reviewing the general implications of demonetization on rural people.

**Keywords:** Demonetization, informal sectors, rural population.

**INTRODUCTION**

Declaration of 86 percent of currency notes as illegal tender in just a blink of time on eve of 8<sup>th</sup> November 2016 mandated the creation of immediate interruption in daily lives. This movement rendered everyone surprised as this was momentous decision and unexpected one which was declared without any prior information in the evening at 8:15 p.m. addressed by our honorable Prime Minister Shri Narendra Modi. This concept of demonetization is not new. This move is targeted for flushing the stocks of “black money” out of our economy and getting them legitimate, banked and taxable so that it becomes a part of our economy. On reviewing the microeconomic effects it somewhat proved to be beneficial: first, the uncollected revenue at various Nagar Nigams increased and second it was also a political move as it was a surgical strike on terror financing, forged notes circulation can also be restrained. However on macroeconomic level large number of population is considering this move as unfair due to the problems faced by them.

Demonetization is defined as act of stripping a currency unit of its status as legal tender. It refers to cessation of current currency and replacing it with new currency. Demonetization is not a new concept; in the past also it has been utilized by various countries as well as India to curb currency some failed very badly with this move. Table 1 shows the countries which previously banned the notes and their effects on economy.

**Table No. 1 countries which implemented demonetization earlier**

Serial No.	Country	Year	Effect on Economy Successful/unsuccessful	Reason for failure
1.	Ghana	1982	Made economy weak unsuccessful	People support for black market and investment in physical assets.
2.	Nigeria	1984	Economy collapsed unsuccessful	Debt-ridden and inflation did not take change well.
3.	Myanmar	1987	Unsuccessful	Led to mass protest resulting in killing of many people.
4.	Soviet Union	1991	unsuccessful	People did not take change positively due to poor harvest.
5.	Australia	1996	No side effects	As the purpose was only to replace paper with plastic.
6.	North Korea	2010	Weak unsuccessful	People left with no food and shelter
7.	Zimbabwe	2015	Weak unsuccessful	Face value one hundred trillion dollars dropped to \$0.5 dollar.
8.	Pakistan	Dec 2016	Cannot be predicted	As the people have ample time to get their note exchanged.

Due to this step adverse impact on Indian economy can be evident as: banning on the medium of exchange for commodities will lead to financial crisis reducing the purchasing power of people. It is evident that demonetization has led to money contraction (to the extent of 14 lakh crore) of which the rural population and urban lower and middle as well as informal class are the worst sufferers.

India is still largely dependent on primary activities including agriculture and allied activities as well as activities of informal sector where almost all the transactions are in cash.

### **Impacts of Demonetization**

- **On Economy**
- Invalidation of 500 and 1000 notes threatens to push Asia's third largest economy into liquidity crisis.
- Demonetization impacted severely as it led to cash crunch which will ultimately result in GDP growth crashing to 0.5% in the second half of financial year 2016-17 meaning hereby it would decelerate 0.5% down from 6.4% in the previous six months. Growth from October to December quarter it will show negative growth (as per reported by Ambit Capital, Mumbai based equity research firm).
- **Disruption in Supply chain Management:**
- "The entire supply chain has been broken," said by Somani, who employ 150 people across India from his base outside Mumbai, as his truck are abandoned with no money for fuel, workers won't stack goods for free of charge, and distributors can't pay up.
- Impact on supply chain of goods and services is dismantled which will further impact the production. Somani reported that they are cutting their production but if it goes for one or two months then they will badly suffer.
- Businessmen are deprived of funds overnight to carry trades, as they neither have source goods nor they can pay the transport of goods to market. Retailers cannot sell their commodities since customers are not having cash and can provide on credit only up to certain extent.
- **Cash Crunched:**
  - People comprising from unorganised sector to big consumer goods have seen their income tumbled by approximately 80 percent in the first week of swap alone.
  - Population relying on informal, cash based are severely hit. An interview showed that Green grocer of New Delhi borrows money to run his shop and he gave vegetables on credit for first two days but now he is forced to shut down his shop as he doesn't have enough cash, he also told that if this condition persists for more than a two weeks then his family might have to go foodless.
  - For bigger firms it has been more difficult to pay their employees.
  - For construction sectors cash is the basic form in which payments are paid.
  - Chandubhai Kothia, head of Gujarat based Shree Ganesh Chemicals complained that limit of 24000 cash withdrawal per week is not sufficient as payments of wages to workers and transports are to be done in cash.

● **Decrement in Income**

- India's vast services sector, which accounts for two-thirds of GDP, is worst hit.
- Motilal Oswal Reported that earnings of autos, retail, consumer goods, cement, telecom, non-banking financial institutions will report downfall.
- Credit Suisse estimates that their more than 90 percent consumer purchases are made in cash and hence purchasing power is lessened which ultimately affects the earnings.
- Several eateries reported that crash in card swiping machines compelled them to refute to customers who did not have sufficient smaller denominations.

According to former US treasury Secretary Lawrence Summers withdrawal of high denominations of currency from circulation is affecting ordinary people rather than striking corruption. The worst hits are rural peoples as agricultural economy is still controlled by middleman and traders who make payments to farmers only in cash.

**Glancing the assailable: Challenges faced by Rural India and Informal Sector**

This year on 1st of January, 2016 The Hindu reported that RBI is asking the banks to open more branches in rural areas of more than 5000 populations and to submit the roadmap latest by January 2016 itself; as ratio to branches and BC is low(6000 population groups branches in urban areas whereas 24000 population groups in rural areas). This clearly proves the need for providing penetration of the banking facilities and financial inclusion to the unbanked far off rural areas.

<b>Rural &amp; Urban Banking at Glance</b>					
<b>GROUP</b>	<b>POPULATION (CRORE)</b>	<b>BRANCHES</b>	<b>PER BRANCH POPULATION (thousands)</b>	<b>SHARE OF DEPOSITS</b>	<b>SHARE OF ADVANCES</b>
RURAL	83(68)	34(37)	24	9%	8%
URBAN	38(32)	59(63)	6	91%	92%
TOTAL	121	93	13	100	100%
<i>Source: Census 2011 &amp; RBI Banking Statistics - Handout Dec`11      () denotes percent</i>					

According to above table full-fledged facilities is available only in 34,000 villages, still 5 lakhs villages are to be covered.

As the demonetization caused cash crunch due to short notice of declaration of Rs. 500 and rs. 1000 as invalid. It relentlessly affected rural populations of India.

One case reported from Karnataka stating that earlier this year water disappeared and then cash vanished. A farmer of Hassan district persecuted by the demonetization; stated that cash crunch caused their yet to be harvested maize to be shrouded in insecurity as there are no purchaser for their crops for lack of cash. Earlier maize was sold at Rs.1700 per quintal but due to demonetization it crashed by one fifth at Rs.1350 per quintal as lack of concrete warehouses persists.

Farmers who have already marketed their kharif crops are unable to buy seeds, fertilizers for rabi cultivation due to lack of cash. Government seed banks are yet to penetrate into the far flung

areas. With no cash in hand Thankachan Andrews of Ripponpet village of Shivamagga district has postponed his harvesting of arecanut and ginger as he is unable to pay the labours.

Limited withdrawal from bank of 2000 rupees have disabled the farmers to employ labourers for harvesting paddy cultivation as daily requirement for payment is approximately Rs 10,000.

Unemployment on the agricultural labour front is perceived among those villagers who are totally dependent on agents to hire them for their agricultural work.

Some farmers of Rajasthan of Dooni and Anwa Village of Tonk District stated that they are indulged in milk procurement centre where the payments are done every ten days. Two payments days have been passed yet the RRB's there; are still closed.

In the wheat-cultivated states sales of seeds and fertilizers have plunged halfway as they ran short of hard cash.

These are just a few problems of people who are affected by the demonetization. Many are still undiagnosed.

### **Conclusion:**

Without adequate and proper planning; the demonetization-driven cash crunch has rendered Indian economy paralyzed for short duration as the informal sector which comprises of 40 percent share in GDP has become unviable. Many people do not have bank accounts where they are paid in cash are facing severe problem. Hours of working time is being wasted in standing in queues for exchange. For physically frail and senior citizens it is grave problem indeed to obtain new notes. Number of deaths occurred for want of medicines as the doctors refused to take denominations of 500 and 1000. To have a relieve from this unnaturally created agony partial roll back of 500 denominations must be taken as; change for 2000 note for small transactions is another big problem for the common people. More smaller denominations notes must be ensured in bank and ATM's quite ahead before so that this acute shortage of notes were not felt as people would already had in their pockets. However the effects of change are emergent from the system itself and cannot be determined beforehand. Hence we can only speculate future macroeconomic effects of demonetization.

### **References**

Borkar, N(2015, December 11). Here's a list of countries that have tried demonetization before India. Retrieved from

<http://www.indiatimes.com/news/world/here-s-a-list-of-countries-that-have-tried-demonetisation-before-india-265743.html>

Worstell, T(2016, November 19). Effects of Demonetization on India's GDP - Difficult to calculate, We Don't even know the Sign. Retrieved from

<http://www.forbes.com/sites/timworstell/2016/11/19/effects-of-demonetisation-on-indias-gdp-difficult-to-calculate-we-dont-even-know-the-sign/#2afd1fba4a1a>

TNN(2016, July 20). Retrieved from

<http://timesofindia.indiatimes.com/good-governance/centre/Financial-inclusion-Banks-to-open-branches-in-rural-areas/articleshow/53296912.cms>

Pattanaik, U(2016, November 18). Artificially created distress. Retrieved from

<http://www.thehindu.com/opinion/columns/demonetisation-artificially-created-distress/article9349829.ece>

Reddy, NSN. Bank on Rural India-way to economic Development. Retrieved from

<http://www.allbankingsolutions.com/Articles/Articles-NSNR-Bank-on-Rural-India.htm>

Speech by Raghuram Rajan at NIRD. Retrieved from

<https://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/CPFI1807162A1AEF2408344A3CB4F48A5C530C2E05.PDF>

Special correspondent, (2016, November 21). Retrieved from

<http://www.thehindu.com/news/national/karnataka/Small-farmers-farm-workers-bear-the-brunt-as-cash-becomes-scarce/article16662097.ece>

(2016, November 21). Retrieved from

<http://www.thehindu.com/opinion/editorial/After-the-storm/article16531256.ece>

<http://www.investopedia.com/terms/d/demonetization.asp>

Cost of demonetisation for India Inc: Stranded trucks, unpaid workers, cancelled bills. Retrieved from

[http://www.business-standard.com/article/economy-policy/cost-of-demonetisation-for-india-inc-stranded-trucks-unpaid-workers-cancelled-bills-116112100058\\_1.html](http://www.business-standard.com/article/economy-policy/cost-of-demonetisation-for-india-inc-stranded-trucks-unpaid-workers-cancelled-bills-116112100058_1.html)