

Impacts of Demonetisation on Kashmir

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ABSTRACT

Demonetisation means withdrawing or stopping a currency denomination of its status as a legal tender. Demonetisation refers, therefore, to the process of deciding that certain coins and banknotes can no longer be exchanged for goods and services. There are multipurpose reasons to demonetise their local units of currency. Some reasons include to curbing corruption, Black money, Eliminating counterfeit currency and terrorism funding. Alongside, the move aimed at the promotion of cash less economy mainly through digitisation. The process of demonetisation includes either introducing new notes of the same currency or completely replacing old currency with new currency. Indian government formally announced of demonetisation of highly currency denomination notes of Rs.500 and Rs.1000 worth nearly 15.4 trillion, constituting about 87% of the currency in circulation, formally took place on November 8 2016. As the rest of country remains in a turmoil due the Demonetisation but people in kashmir have accepted the move without any panic. the people in kashmir choosngto deposit money in banks after the eruption of militancy in the valley, PDP-BJP coalition government has revealed in the Economic survey report 2016.

I. INTRODUCTION

Any government withdraws the legal tender rights of a denomination of currency, it is known as demonetisation. In india the formal announcement of demonetisation of highly currency notes from midnight of 8th November 2016. The move aimed at curbing corruption, block money, boost to the tax base, financial inclusion, cashless economy etc. lahiri (2016) mentioned that there are instances when countries like Canada and Singapore, discontinued printing some high value notes and asked banks to return such notes to the central bank without calling them illegal tender, however in india experience has tendered the high denomination notes illegal and supplied fresh notes of Rs 500 and Rs 2000. As per the report of RBI dated 14/12/2016, the total amount of old notes of value of Rs.12.44 lac crore has been deposited by the customers till 10/12/2016. Banks started accepting deposits from 10 November but within a period of 15 days approximately half money has been received by the banks. As of now the journey of the government towards curbing black money and corruption such as the Income Declaration Scheme (IDS) in the Budget for 2016-17, the August 2016 amendment of the Benami Transaction (Prohibition) Act of 1988, and the reform in indirect Taxes in the form of GST are isolated measures but collectively create the massive scope for addressing the two problems. The former RBI Governor Raghuram raja mentioned that the short term economic cost of demonetisation would outweigh the long term benefits of the move. The other view also points the intention of demon as it has led to extra burden on RBI of Rs 7,965 crore on printing new notes post demon along with the extra liability on RBI to pay the interest on reverse repo deposits of banks lying with the centre bank. The demon move might have added the extra burden on RBI, but the cost of shortfall of capital in Indian banking industry under the international accord of Basel III is of utmost importance which can be managed through surplus balance with the central bank. Unlike other parts of the country, which were marred by chaos and turmoil due to the scrapping of Rs 500 and Rs 1000 currency notes, people in Kashmir remained mostly unaffected and no longer queues were witnessed at Banks or at ATMs. Furthermore, Bank connectivity and reach of ATMs also ensure normalcy in the valley after the demonestation because at that juncture valley was under the Buhran turmoil.

II. OBJECTIVES OF THE PAPER

- To study the impact of demonetisation on common people,
- To study the impact of demonetisation on Banking sector ,
- Sectoral Impacts of demonetisation.

History

International Experience

The international experience on demonetisation is not very successful. e.g Ghana, Nigeria, Myanmar, Russia(at the time of Soviet Union),North Korea, Australia, Zimbabwe, Zaire, USA etc have all attempted demonetisation with some adverse effects but with the objective of curbing Black money.

Indian Experience

The recent demonetisation in India is third in the sequence of major initiatives taken related to banning the high denomination notes in india. The earlier initiatives were carried out in 1946 when highly currency notes of Rs 1000 and Rs 10,000 were removed from the circulation, but as per literature the impact had been very little. During the 1978 the notes of Rs 500,Rs 1000,and Rs 10,000 has been banned to over come the problem of Black money its impact was not much though short term impact has been observed n terms of sharp increase in deposit growth.

Impact on common people

Modi ji's surprise announcement On 8th November 2016 is quickly becoming more than just inconvenience for many. Nearly three dozen people have died in the aftermath of India's bold, surprising move to demonetize its Rs 500 and Rs 1,000 currency notes. Some of these people have reportedly died standing in the long snaking queues, while many others died because hospitals, pharmacy shops, and ambulances refused to offer services in exchange of old notes. A child reportedly died at a hospital owned by union culture and tourism minister Mahesh Sharma, after the staff refused to accept old notes for treatment. An infant died in Odessa after an auto rickshaw driver refused to take the family to a hospital. The family didn't have smaller denomination notes with them for the fare. A sick newborn was refused treatment in Mumbai after the parents couldn't provide money in new currency notes,but in kashmir the situation was better as if now no report has been found that people were hashed while exchange of their demonetised currency notes.

III. IMPACT ON BANKING SECTOR

As directed by the Government, the 500 and 1000 Rupee notes which now cease to be legal tender are to be deposited or exchanged in banks (subject to certain limits). This will automatically lead to more amounts being deposited in Savings and Current Account of commercial banks. But the economic survey of 2015-16 states that Jk has estamied 42 lakh working population of which 58% engaged in agrarian activities remaining 42% in private and public sectore, which reavels J&K is economically backward & is mostly dependent on bank lending for carrying business activities and trade activities. Hence bank realeases a figure on 31 March 2016,the banks in Jammu & Kashmir had a total deposit portfolio of Rs 82,000 crore while the lending was Rs 42,000 crore in the state. However, to the extent that households have held on to these funds for emergency purposes, there would be withdrawals at the second stage. Transactions and alternative modes of payment: With cash transactions facing a reduction, alternative forms of payment will see an urge in demand. Digital transaction systems, E wallets and apps, online transactions using E banking, usage of Plastic money (Debit and Credit Cards), etc. will definitely see substantial increase in demand, As these things could not harsh the valley in any way as there is alot of community banking in j&k and the number of people are very small as there are 2,000 bank branches which means bank for every 6250 person.

Table 1:-Sector wise bank credit (Growth in%)

Sector	Dec 2015	Jan-16	Feb 16	Mar 16	Apr 16	May 16	Jun 16	Oct 16	Nov-16	Dec-16	Jan-17	Feb-17	Mar 17	Apr-17	May 17	Jun-17	Credit out standing	Shares(%)
Non food credit	9.30	9.83	9.89	9.06	8.44	8.39	7.95	6.67	4.75	4.01	3.51	3.29	8.37	4.54	4.08	4.82	68698	74.52
Agricultural & allied activities	12.7	13.3	13.5	15.28	15.2	15.60	13.8	13.0	10.31	8.18	8.08	8.95	12.4	7.38	7.39	7.46	9719	1.54
Industry	4.93	5.63	5.36	2.75	0.12	0.92	0.64	-1.7	-3.35	-4.31	-5.06	-5.2	-1.85	-1.39	-2.12	-1.07	26185	28.40
Micro & small	2.50	2.42	1.74	-2.25	-6.67	-6.48	-3.81	-4.3	-7.71	-8.16	-7.41	-5.2	-0.47	-0.26	0.09	0.50	3116	3.92
Large	6.1	6.9	7.0	4.2	2.1	3.06	1.9	-	-	-	-	-	-	-	-	-	2156	23.39

	0	6	0	4	9		9	1.2	2.2	3.4	4.3	4.	1.7	.20	2.1	0.9	7	
									5	7	9	8	3		1	9		
Services	8.10	8.91	8.64	9.06	10.8	9.33	9.21	9.28	7.10	8.31	8.09	7.88	16.9	4.10	4.02	4.74	16393	17.78
Personal lone	18.4	18.0	19.2	19.3	19.7	19.0	18.4	16.9	15.2	13.5	12.9	12.0	16.3	14.4	13.6	14.1	16401	17.78
Housing	18.8	18.4	18.9	18.8	18.2	18.9	18.3	16.5	15.6	14.8	13.5	11.4	15.1	13.4	12.0	11.4	1819	9.35
Other loans	23.3	25.5	28.6	25.2	31.6	27.8	23.5	20.4	17.3	12.8	13.2	15.9	26.9	23.1	24.7	27.9	2382	4.32
Priority sector	10.9	10.6	10.7	107	11.2	11.7	9.7	8.2	5.8	4.0	4.2	4.7	9.4	5.6	4.1	4.0	2349	25.38
Agricultural & allied acts	12.7	13.3	13.4	15.2	15.1	15.5	13.6	12.8	9.9	7.8	7.7	8.6	12.2	7.2	7.2	7.3	9698	10.52
Micro & small entrprs	9.0	7.8	7.8	5.9	3.9	4.5	5.5	3.2	1.1	-1.0	-036	0.68	6.42	3.55	2.92	2.80	8733	9.47
Housing	6.27	5.61	6.63	6.17	7.64	7.95	2.25	10.3	6.64	5.54	5.08	4.58	7.62	5.07	1.48	2.81	3571	3.87

Note Rs Billion as on July 2017 %share in total bank credit .Source Compilation from RBI, Monthly Bulletin.

IV. THE SECTORAL IMPACTS

While sectors with linkages to the unorganized economy are likely to be affected, technology and financial services are expected to gain in the medium to long term. On a sectoral basis, the commodities and agricultural sector, including the market for consumer durables and non-durables is expected to feel the heat. In the short to medium term, large denomination purchases will likely be made via electronic purchases rather than through brick and mortar outlets. This will impact the retail sector adverse. The real estate sector is likely to see a significant negative impact in the medium-to long-term, particularly in the repurchase market. There are expectations of a revaluation of current real estate transactions across the board representing possible losses to players in the sector. The luxury goods market is also likely to get affected as this move represents an erosion of real wealth to a large Areas of sub-sectoral impact will be felt in luxury cars, SUVs, gems, jewellery, gold and high-end branded products. The real estate sector is likely to see a significant negative impact in the medium- to long-term, particularly in the repurchase market. There are expectations of a revaluation of current real estate transactions across the board representing possible losses to players in the sector. The luxury goods market is also likely to get affected as this move represents an erosion of real wealth to a large number of people. On the positive side, there is likely to a reset of spending patterns as this move represents indirectly a significant push towards a cashless economy. Businesses in the fin-tech sector, including payment banks, mobile wallets, electronic transfer providers, etc., are expected to see gains.

The principle impact of demonestation on the economy of kashmir has been to soften the land rates.but it has been considered good as asset prices bubble in the system as assets like the house and land was way out of line with other assets. The siklled and un siklled workers mostly earn as much as they spend on an average, besides big industrialists and businessman never keep large amounts of cash at home in the conflict ridden areas, due to which these areas were not impacted by the demonestation.

Postive Impact	Negive impact
E-Commerce & Fitch	Agricultural
1 Payment Gateways	Luxury Goods
2 Cards	Real Estates
3 Mobile Wallets	Commodities Traditional Retails
4 Online Retail	1 Consumer durables
5 Net & Payments	2 Consumer non durables
6 E-Market Places	3 Vegetables

CONCLUSION

If the money disappears, as some hoarders would not like to be seen with their cash pile, the economy will not benefit. On the other hand if the money finds its way in the economy it could have a meaningful impact. The reduction in incidents of stone pelting and protests will be minimised as saying of Financial Minister {Arun Jaitley}, However, it is interesting to note that stone pelting is not the only form of violence that Kashmir is reeling under. Hence Jean Dréze calling demonetisation a big gamble for India, the possibility of a favourable outcome cannot be ruled out. The possibility of these effects being temporary may seem to be a ray of hope.

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