

**A study on Demonetization in India and its impact on Pradhan Manthri
Jan Dhan Accounts**

Mrs. Divya U

Research Scholar

ISBR Research Centre, Bangalore

Mail ID: divya.u@agieducation.org

Dr. Noor Firdoos Jahan

Research Guide, ISBR Research Centre, Bangalore

Email ID: noor.firdoos@gmail.com

Abstract

Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency. The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. In 2016 last year, the Indian government decided to demonetize the 500 and 1000 rupee note of the Mahatma Gandhi Series, the two biggest denominations in its currency system. These notes accounted for 86% of the country's circulating cash. With little warning, India's Prime Minister Narendra Modi announced to the citizens of India on Nov. 8 that those notes were worthless, it was effective immediately and they had until the end of the year to deposit or exchange them for newly introduced 2000 rupee and 500 rupee notes. An ambitious financial inclusion scheme of Government India is Pradhan mantri Jan dhan yojana.. The demonetization has created lot of impact on Pradhan mantra Jandhan accounts. Deposits in Jan Dhan account have more than doubled to Rs 87, 000 crore in 45 days post demonetisation, prompting the tax department to "dissect" information relating to such deposits. The investigation by IT department revealed that the jandhan accounts were misused for converting black money into new denomination notes.

Key words: Pradhan Mantri Jan dhan accounts, denomination, Bank, block money, deposits.

Introduction

Demonetization is defined as the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency. The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Sometimes, a country completely replaces the old currency with new currency. The opposite of demonetization is remonetization, in which a form of payment is restored as legal tender. There are multiple reasons why nations demonetize their local units of currency

- to combat inflation
- to combat corruption and crime (counterfeiting, tax evasion)
- to discourage a cash-dependent economy
- to facilitate trade

Demonetization around the Globe

The Coinage Act of 1873 demonetized silver as the legal tender of the United States, in favor of fully adopting the gold standard. Several coins, including two-cent piece, three-cent piece, and half dime were discontinued. The withdrawal of silver from the economy resulted in a contraction of the money supply, which subsequently led to a five-year economic depression throughout the country. In response to the dire situation and pressure from farmers and silver miners and refiners, the Bland-Allison Act remonetized silver as legal tender in 1878.

An example of demonetization for trade purposes occurred when the nations of the European Union officially began to use the euro as their everyday currencies in 2002. When the physical euro bills and coins were introduced, the old national currencies, such as the German mark, the French franc and the Italian lira were demonetized. However, these varied currencies remained convertible into Euros at fixed exchange rates for a while to assure a smooth transition.

In 2015, the Zimbabwean government demonetized its dollar as a way to combat the country's hyperinflation, which was recorded at 231,000,000%. The three-month process involved expunging the Zimbabwean dollar from the country's financial system and solidifying the U.S.

dollar, the Botswana pula and the South African rand as the country's legal tender in a bid to stabilize the economy.

Demonetization in India

In 2016 last year, the Indian government decided to demonetize the 500 and 1000 rupee note of the Mahatma Gandhi Series, the two biggest denominations in its currency system. These notes accounted for 86% of the country's circulating cash. With little warning, India's Prime Minister Narendra Modi announced to the citizens of India on Nov. 8 that those notes were worthless, it was effective immediately and they had until the end of the year to deposit or exchange them for newly introduced 2000 rupee and 500 rupee notes.

The plan to demonetise the 500 and 1000 bank notes began six to ten months prior, and was kept highly confidential with only about ten people aware of it completely. The logistical processes and preparations for printing the new 500 and 2000 bank notes began in early-May. The cabinet was informed about the demonetisation on 8 November 2016 in a meeting called by the Prime Minister of India Narendra Modi which was followed by Modi's public announcement about the demonetisation in a televised address.

The government's goal and rationale for the Deminitisation was:

- To eradicate counterfeit currency
- To fight tax evasion (only 1% of the population pays taxes),
- To eliminate black money gotten from money laundering and terrorist-financing activities
- To promote a cashless economy.

Exchange of old notes:

The Reserve Bank of India stipulated a window of fifty days until 30 December 2016 to deposit the demonetized banknotes as credit in bank accounts. The banknotes could also be exchanged over the counter of bank branches up to a limit that varied over the days.

- Initially, the limit was fixed at Rs2, 000 per person from 8 to 13 November.
- This limit was increased to Rs4, 500 per person from 14 to 17 November.
- The limit was reduced to Rs2, 000 per person from 18 November.
- All exchange of banknotes was abruptly stopped from 25 November 2016.

- International airports were also instructed to facilitate an exchange of notes amounting to a total value of Rs 5,000 for foreign tourists and out-bound passengers.

Chaos ensued in the cash-dependent Indian economy (where about 78% of all Indian customer transactions are in cash), as long, snaking lines formed outside ATMs and banks, which had to shut down for a day. The new rupee notes have different specifications, including size and thickness, requiring re-calibration of ATMs only 60% of the country's 200,000 ATMs were operational. Even those dispensing bills of lower denominations faced shortages. The government's restriction on daily withdrawal amounts added to the misery, though a waiver on transaction fees did help bit. Small businesses and households struggled to find cash and reports of daily wage workers not receiving their dues surfaced. The rupee fell sharply against the dollar. The [BSE SENSEX](#) and [NIFTY 50](#) stock indices fell over 6 percent on the day after the announcement

Individuals and entities with huge sums of black money gotten from parallel cash systems were forced to take their large-denomination notes to a bank, which was by law required to acquire tax information on them. If the owner could not provide proof of making any tax payments on the cash, a penalty of 200% of the owed amount was imposed.

Soon after the announcement, people rushed to buy gold, a demand that drove prices up for gold, in some cases even to a 60% premium, prompting the tax authorities to conduct surveys, according to the Business Standard newspaper. The government emphasized the need to furnish PAN (Indian Permanent Account Number) card details on purchases for accountability purposes, and many jewelry shops that were flouting the norms came under crackdowns.

Many Indians switched to alternative payment avenues . The country with 1.2 billion populations had only 25.9 million credit cards and 697 million ATM cards as on July 2016. The biggest gainers were mobile wallet companies that offer ease of transactions through a large network of partners. Paytm saw a sevenfold increase in overall traffic and a 10-fold jump in money added to Paytm accounts. It also saw the number of transactions double to five million a day.

App downloads for Paytm increased by 300%. Paytm rival MobiKwik also saw its app downloads quadruple and a 20-fold increase in money added to the wallets. Prepaid cash cards were another option that customers found useful, and that meant good news for companies like

ItzCash. Other alternatives include mobile payments systems linked to e-commerce businesses like Ola Money, FreeCharge, Flipkart Wallet. Ola Money, the payment portal for popular transportation app Ola Cabs, reported a 1500% jump in money added to the accounts in less than four hours.

Pradhan Mantri Jandhan Yojana

Financial inclusion is a priority of any government to achieve inclusive growth of the country for sustainable economic development. Financial inclusion is a process of ensuring accessibility, availability and usage of the formal financial system for all members of the economy. In other words financial inclusion is nothing but inclusion of financially excluded segment of the society into formal financial system of the economy. According to K.C.Chakrabarthy Deputy Governor RBI “Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by main stream institutional players.” The main objective of financial inclusion is to deliver financial services at an affordable cost to vast section of unbanked, disadvantaged and low income groups of the society so that they can improve their living standards, which leads to general economic development and growth.

India is the world’s largest democracy, is seventh largest country and tenth among all nations in terms of GDP. Even though India is showing all signs of growth and developments still larger part of its population is below poverty line. By comparison of India’s financial inclusion with other countries it’s found that India is still limping and there is still a long way towards achieving the goal of 100 % inclusion and poverty alleviation. The efforts for financial inclusion is not new in India the RBI and GOI had taken many initiatives like no frill accounts, Bank Mittr, swabhimaan campaign etc. Despite various measures taken by RBI and GOI towards financial inclusion poverty and financial exclusion continues to dominate the socio economic and political discourse in India even after six decades of independence. But the GOVT and RBI didn’t stop their efforts towards 100% financial inclusion. An important step taken towards this is Pradhan Manthri Jan Dhan Yojana

Honorable Prime Minister of India Sri.Narendra Modi announced this national mission for financial inclusion on his first Independence Day speech on 15th august 2014. The scheme was formally launched on 28th august 2014.

Objective of "Pradhan Mantri Jan-Dhan Yojana (PMJDY) is

“Ensuring access to various financial services like availability of basic savings bank account, access to need based credit, remittances facility, insurance and pension to the excluded sections i.e. weaker sections & low income groups. This deep penetration at affordable cost is possible only with effective use of technology”.

Special Benefits under PMJDY

- Bank accounts can be opened by any bank branches or business correspondent. It's a zero balance account and no minimum balance required to be maintained.
- The deposit holders will get interest on their deposits.
- Overdraft facility up to Rs 5000 will be provided to one account per household (preferably to lady of the household) after satisfactory operation of the account for six months.
- Providing Rupee debit card with inbuilt accidental insurance coverage up to Rs 100000.
- The scheme offers life insurance coverage of Rs 30000 payable on death of beneficiary subject to fulfillment of eligibility conditions.
- The direct transfer of funds to these accounts of beneficiaries under different government schemes.
- Account holder can easily transfer their funds across India.
- Access to pension and insurance products.

Objectives of the study

1. To gain knowledge regarding Demonetization and Pradhan mantri Jandhan yojana.
2. To analyze the impact of Demonetization on Jan dhan Scheme of Government of India.

Research methodology: The descriptive method of research was adopted for the study. The study was completely based on secondary source of information gathered from official website of Pradhan mantri jandhan yojana and RBI websites. The Jan dhan account data was taken for two time period that is one before implementation of Demonetization (28-9-16) and another after implementation of Demonetization (15-3-17) to analyse the impact of demonetization on Jandhan accounts as the Demonetization in India happened on 8th November 2016.

Review of Literature

Verma & Raghavendra(2016) studied about the impact of **demonetization** on India's food industry. They presented the varying reception of Indian Prime Minister Narendra Modi's announcement to demonetize some of its banknotes from circulation, the negative effect of the said directives to food sales of discretionary items particularly processed meats, and notes the positive implications of **demonetization** to organized food trade in the country.

Das & Guha (2015) studied about the Differences in the Banking Parameters between Pre- and Post-Financial Inclusion Periods and found that the number of bank offices of SCBS have increased in all regions except North eastern regions during financial inclusion period. The CAGR of NER was lowest compared to other regions in terms of branches ,number of accounts deposits and overall.

Hee Kim (2016) studied about the relationship Between Income Inequality and Economic Growth of west and found that income inequality has a very negative effect on GDP growth and financial inclusion improves the relationship between income inequality and economic growth. The reduction in income inequality through financial inclusion changes the negative relationship between income inequality and economic growth into a positive relationship

Ranjani & Bapat(2015) studied about deepening financial inclusion beyond account opening and road ahead for banks and found that the Respondents either did not have a bank account, or those who did have accounts did not approach banks for their credit requirement because who tried to borrow, had been rejected due to several reasons such as respondents had a hesitation in approaching banks and perceived difficulties in terms of documentation requirements, loan sanction procedure being lengthy and time consuming, and repayment terms being inflexible.

Stephen & Rose Tom (2015) made research about role of cooperative banks in financial inclusion .the main findings of this study was that there is a significant relationship between the gender of the respondents and the level of preference of financial services, and preference of small personal loans. And there is also a significant relationship between income of the respondents and reasons for not having a bank account.

Kumar (2010) has researched about the financial inclusion across different population groups in India by studying the branch expansion of different banks .Nationalized Bank Group is the

frontrunner both in terms of largest number of average functioning of branches and highest number of branches opened in comparison to RRBs private banks and foreign banks.

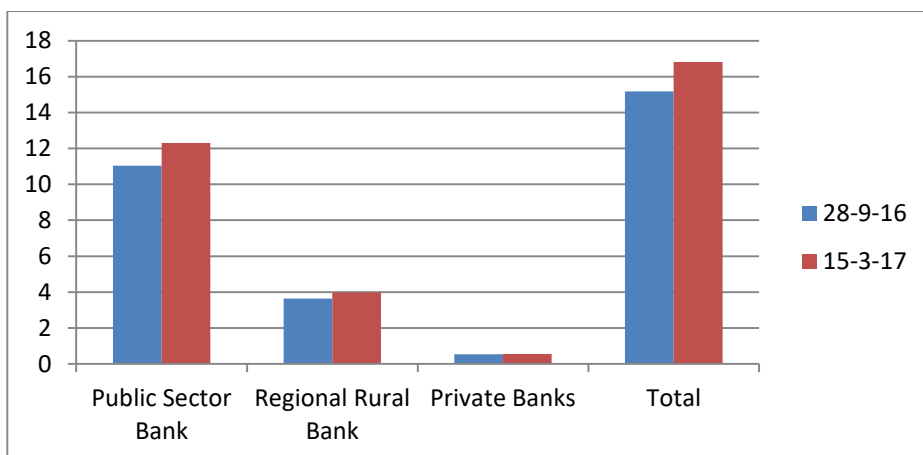
Results and Discussion

Demonetization impact on Pradhan Mantri Jan Dhan Yojana

Table:1 Number of Jan dhan accounts opened in Rural India before and after Demonetization				
Bank	Before Demonetization	After Demonetization	change in crores	change in %
Public Sector Bank	11.03	12.3	1.27	11.51
Regional Rural Bank	3.63	3.97	0.34	9.37
Private Banks	0.53	0.55	0.02	3.77
Total	15.18	16.82	1.64	10.81

Source: pmjdy website

Graph: 1 Number of Jan dhan accounts opened in Rural India before and after Demonetization



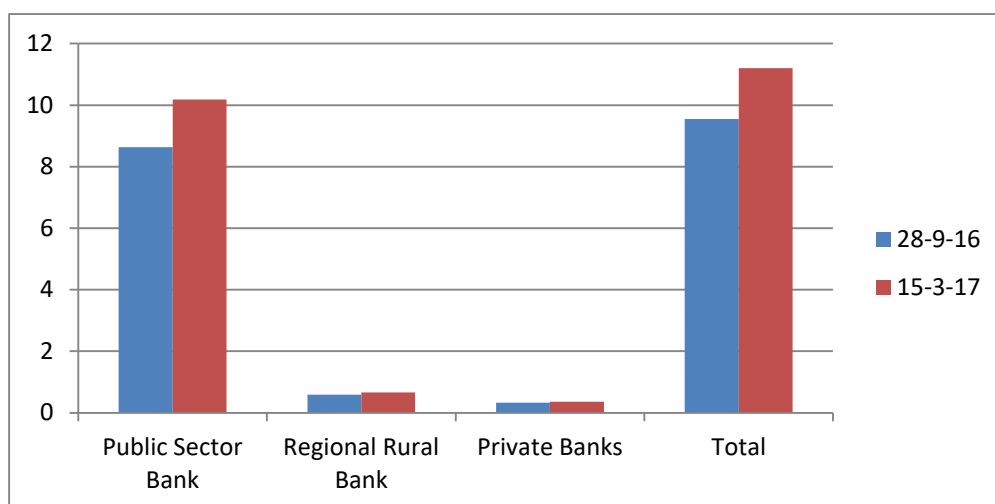
Interpretation:

The number of Jan Dhan accounts opened in Rural India has increased by 1.64 crore and around 11% more accounts were opened in comparison to before and after demonetization period. The maximum number of accounts was created by public sector banks during this period which amounted to 1.27 crores.

Table:2 Number of Jan dhan accounts opened in Urban India before and after Demonetization				
Bank	Before Demonetization	After Demonetization	change in Crores	change in %
Public Sector Bank	8.63	10.18	1.55	17.96
Regional Rural Bank	0.59	0.66	0.07	11.86
Private Banks	0.33	0.36	0.03	9.09
Total	9.55	11.2	1.65	17.27

Source:pmjdy website

Graph: 2 Number of Jan dhan accounts opened in Urban India before and after Demonetization



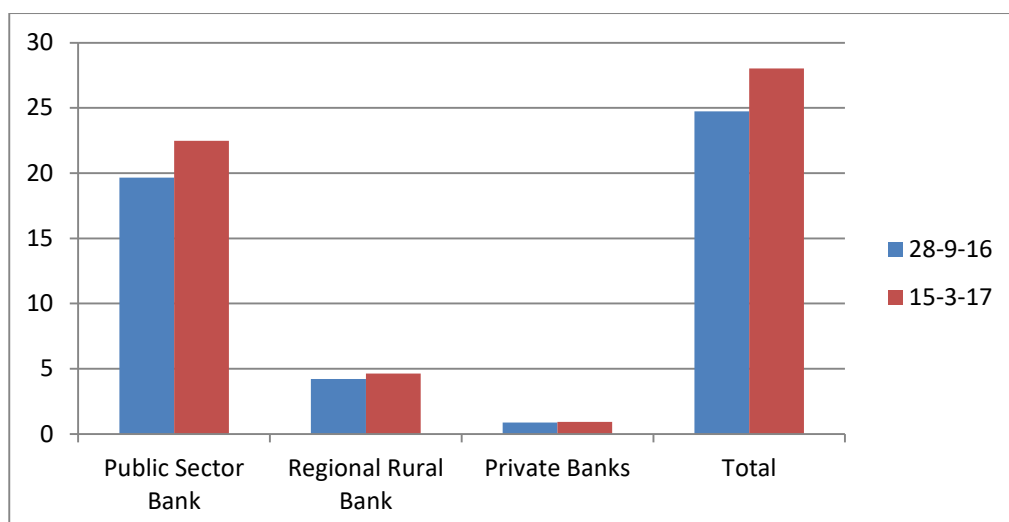
Interpretation:

The number of Jandhan accounts opened in urban India has increased by 1.65 crore and around 17% more Jandhan accounts were opened in comparison between before and after demonetization period. The maximum number of accounts was created by public sector banks even in urban India during this period which amounted to 1.55 crores.

Table:3 Total Number of Jan dhan accounts opened in India before and after Demonetization				
Bank	Before Demonetization	After Demonetization	change in crores	change in %
Public Sector Bank	19.66	22.48	2.82	14.34
Regional Rural Bank	4.22	4.63	0.41	9.71
Private Banks	0.86	0.91	0.05	5.81
Total	24.74	28.02	3.28	13.25

Source: pmjdy website

Graph: 3 Total Number of Jan dhan accounts opened in India before and after Demonetization



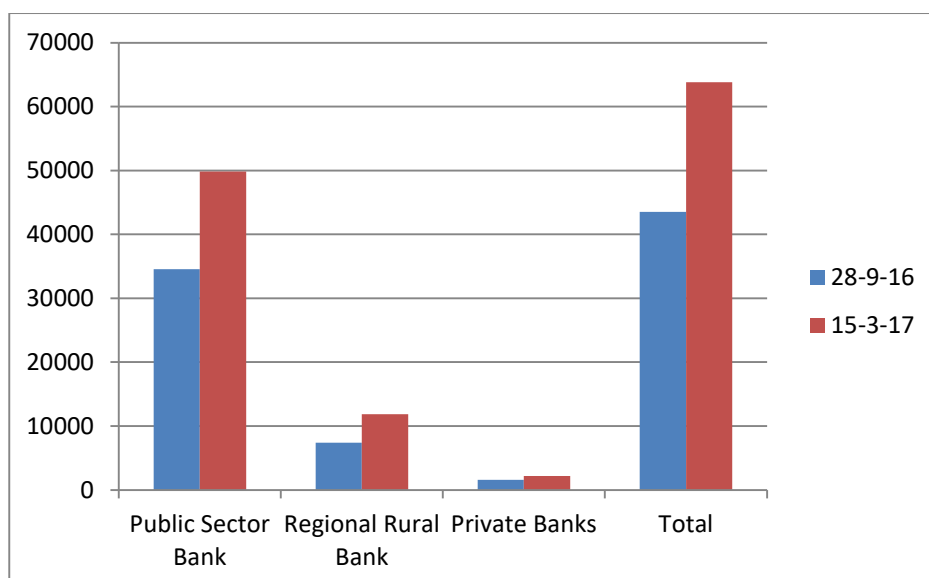
Interpretation:

The total number of Jandhan accounts opened in India has increased by 3.28 crore and around 13% increase in Jandhan accounts in comparison between before and after demonetization period. The maximum number of accounts was created by public sector banks, followed by regional rural banks and private banks.

Bank	Before Demonetization	After Demonetization	change in cr	change in %
Public Sector Bank	34550.69	49815.49	15264.8	44.18
Regional Rural Bank	7401.9	11840.69	4438.79	59.96
Private Banks	1580.08	2180.47	600.39	37.99
Total	43532.67	63836.65	20303.98	46.64

Source: pmjdy website

Graph: 4 Balances in Jan dhan accounts before and after demonetization



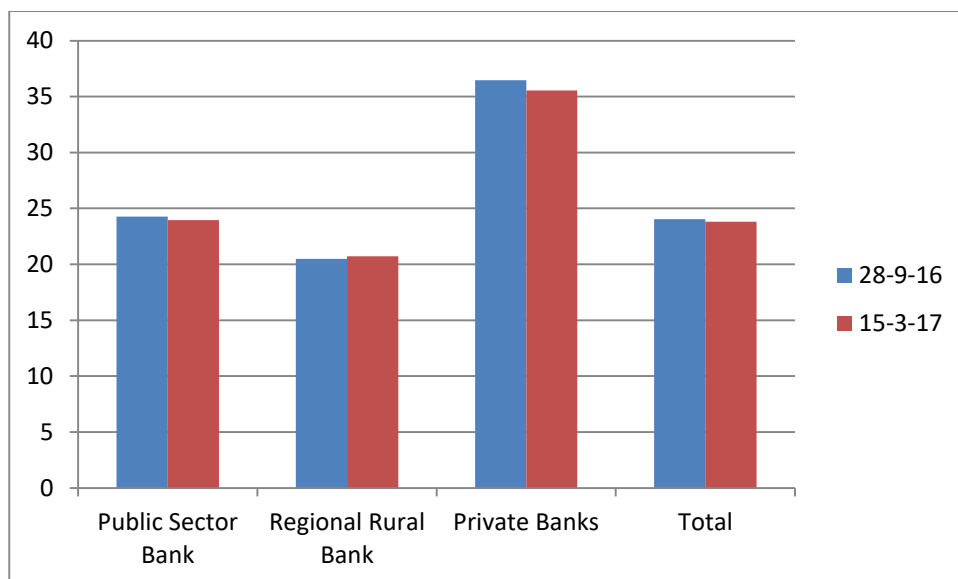
Interpretation:

The balance in Jandhan accounts increased tremendously after demonetization. Before demonetization the total Jandhan account deposits were around 43533 crores but after demonetization it has increased to 63837 crores. There is an inflow of around 20304 crores into these Jandhan accounts after demonetization. The total deposits in these accounts increased by 47%.

Table:5 Percentage of Zero balance Jan dhan accounts			
Bank	Before Demonetization	After Demonetization	change
Public Sector Bank	24.27	23.96	-0.31
Regional Rural Bank	20.5	20.72	0.22
Private Banks	36.47	35.56	-0.91
Total	24.05	23.8	-0.25

Source:pmjdy website

Graph: 5 Percentage of Zero balance Jan dhan accounts



Interpretation:

The Zero balance Jandhan accounts were around 24.05% before demonetization and it has reduced to 23.8% after demonitisation. The total percentage of Zero balance Jandhan accounts have decreased by 0.25 with respect to total Jandhan accounts after demonetization in India.

Findings and conclusion:

In 2016 november, the Indian government decided to demonetize the 500 and 1000 rupee note of the Mahatma Gandhi Series, the two biggest denominations in its currency system. These notes accounted for 86% of the country's circulating cash. The government's goal and rationale for the Deminitisation was to eradicate counterfeit currency, fight tax evasion (only 1% of the population pays taxes), to eliminate black money and terrorist-financing activities and to promote a cashless economy. Chaos ensued in the cash-dependent Indian economy soon after demonitisation where about 78% of all Indian customer transactions are in cash, there was long queues outside ATMs and banks, the new rupee notes have different specifications, including size and thickness, requiring re-calibration of ATMs only 60% of the country's 200,000 ATMs were operational, Small businesses and households struggled to find cash and reports of daily wage workers not receiving their dues surfaced, the rupee fell sharply against the dollar, the [BSE SENSEX](#) and [NIFTY 50](#) stock indices fell over 6 percent on the day after the announcement.

An ambitious financial inclusion scheme of Government India is Pradhan mantri Jan dhan yojana. The main aim of these accounts is to provide basic bank account facility to the lower

and weaker section of the economy. The demonetization has created lot of impact on Pradhan mantra Jandhan accounts. The number of Jandhan accounts opened in Rural India has increased by 11% and in urban India by 17% after demonetization. The total number of Jandhan accounts opened in India has increased by 3.28 crore and around 13% increase in Jandhan accounts in comparison between before and after demonetization period. The balance in Jandhan accounts increased tremendously after demonetization there was an inflow of around 20304 crores into these Jandhan accounts after demonetization. The total deposits in these accounts increased by 47%. The public sector banks are fort runner in opening more accounts as well as in collecting more deposits. The number of zero balanced jandhan accounts was also reduced after demonetization. All these facts clearly give us idea about how an ambitious financial inclusion project like Handan was made use of by wealthy block money holders to convert their block money into white money.

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