

EFFECT OF DEMONETIZATION ON PMJDY

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Abstract

The objectives of this paper are to study chronologically, the past events when demonetization has taken place in India and other countries in the world and to gauge the effect of demonetization on PMJDY scheme in the short-run. Various published sources, newspaper articles on PMJDY and demonetization and government websites have been used to collect the secondary data. The data is analyzed using basic tools of statistics like average, percentage, tables and diagrams (line graphs). The results revealed that some countries showed successful experience of demonetization (Australia, European Union, India) while in some other countries the process of demonetization has failed to serve its objectives (Ghana, Nigeria, Myanmar, Soviet Union, North Korea, Zimbabwe). In the short run, the number of PMJDY beneficiaries showed a marginal increase with maximum no. of beneficiaries in PSBs alone. The deposits also increased initially but people started withdrawing the amount as soon as the new currency started to float. The number of PMJDY beneficiaries in PSBs branches were the highest followed by regional rural branches and the private bank branches in the short run.

Keywords: Demonetization, PMJDY, banking, public-sector banks, tax evasion, counterfeit money

JEL classification: G210

1. Introduction

Demonetization

Demonetization is the process by which a currency in circulation is stripped of from the status of legal tender. Demonetization process helps in blocking of an old currency and in replacing the old currency by a new currency. India witnessed demonetization on 8th November, 2016 when PM Narendra Modi proclaimed that all the currency notes of Rs. 500 and Rs. 1000 will discontinue to be legal tender from midnight. This move was unforeseen to ensure that the tax evaders do not find any chance to unearth their black money.

PMJDY

It has been 50 years since the banks in India were nationalized in 1969 but a large part of the population in India is still unbanked. In order to bridge this gap of financial inclusion among the rural and urban population, PM Narendra Modi in his Independence Day speech on 15th August, 2014 disclosed a new program for financial inclusion named “Pradhan Mantri Jan Dhan Yojana (PMJDY)”. The main objective of this scheme is emphasized by its slogan “Mera Khaata, Bhagya Vidhaata”. This scheme aims to provide all the poor people of India with a bank

account, credit facility, insurance cover and debit card. This scheme, in the long run will help to eliminate corruption and scrupulous activities of money lenders and middleman with the help of banks providing overdraft facilities and subsidies to the poor people right in their bank accounts. PMJDY is working to achieve the following 6 Pillars/targets (Meera et al., 2016). During the first stage of its implementation (15th August, 2014 - 14th August, 2015), the first three objectives were aimed to be achieved. The second stage of its implementation (15th August, 2015- 15th August, 2018), aimed to be address the last three objectives.

1. Universal access to banking facilities: The first and foremost objective of PMJDY is to deliver easy and affordable banking facilities to every household in the economy. To accomplish this aim, many villages in India have been divided into “Sub Service Areas” (SSAs) within 5 kms which serve around 1500 households in order to provide every household an access to banking services.
2. Basic Bank Accounts: This yojana aims to provide basic banking facilities and an overdraft facility of Rs. 5000 (after six months) to all the households who are not covered by any banking facility. The people opening a bank account under this scheme have also got Rupay Debit Card having an accidental insurance cover up to Rs. One lakh.
3. Financial Literacy Program: In order to make this PMJDY a huge success, awareness regarding the benefits of banking system, use of debit cards, benefits of an overdraft facility etc. is being provided through various seminars, conferences and lectures.
4. Credit Guarantee Fund: In order to cover the losses due to defaults in the overdrafts and to provide the banks a security to banks to issue overdraft facility to people, a Credit Guarantee Fund has been set up.
5. Micro Insurance: Micro Insurance is the insurance that can aid low- income people by paying very low or nominal amount as premium. Micro insurance schemes launched for successful implementation of PMJDY are “Atal Pension Yojana, Pradhan Mantri Suraksha Bima Yojana, Pradhan Mantri Jeevan Jyoti Bima Yojana” etc.
6. Pension Scheme: Payments under the pension schemes like Swawlamban are being disbursed through bank accounts. This has helped to prevent people from the atrocities of middleman.

2. Literature Review

The studies show mixed results of effect of demonetization effects on various spheres of Indian economy. Some studies highlighted the positive effects of demonetization. Meher (2017) states that demonetization has led to huge inflows of cash into banks and has helped in the revival of Indian banks. Some of the existing NPAs of banks have been reduced. Whereas some other studies have shown the negative impact of demonetization policy. Singh (2017) proclaims that demonetization was a reckless and misguided policy which has harmed the economy in the short run. Demonetization has led to disturbance to people to get the currency required to meet their business and consumption needs. Eusebius (2017) contends that the claims made by the government to explain the effects of demonetization to curb black money have been exaggerated. However, demonetization has been successful in spreading awareness about black money.

Mehta (2017) performed a SWOT analysis on PMJDY. The author suggests that PMJDY can prove to be a huge success for the Indian Economy if every Indian participates in this process. Since this scheme aims at instigating the habit of savings among people, this will also lead to expansion in the resource base of the country. Meera et al. (2016) show that demonetization has led to better functioning of PMJDY. They highlight the need to monitor the deposits in order to keep a check on black money. Kaur & Singh (2015) declare that PMJDY is a great step towards financial inclusion. It has helped to bring many people under the purview of banking.

3. Objectives of the study

- To study chronologically, the past events when demonetization has taken place in India and other countries in the world.
- To gauge the effect of demonetization on PMJDY scheme in the short-run.

4. Research Methodology and Scope of study

The study follows a descriptive research methodology and uses data obtained from secondary sources. Various published sources, newspaper articles on PMJDY and demonetization and government websites have been used to collect the secondary data.

The study takes weekly data of the period from October 2016 to December 2016 to fulfill second objective. Data is taken from the government website i.e. www.pmjdy.gov.in.

5. Discussion and Findings

Demonetization experience in India and other countries

The study reports chronologically, the year, reasons, and the result of demonetization in India and other countries in the world.

Table 1: Demonetization in India and other countries

S. No.	Country	Year	Reasons for demonetization	Results
1.	Ghana	1982	To suppress tax evasion, control black money and reduce tax evasion	Move proved to be unsuccessful, people started investing in physical assets, thus weakening the economy.
2.	Nigeria	1984	To fight against black money	Economy collapsed due to hyper-inflation.
3.	Myanmar	1987	To tackle black money	Mass protests and economy upset.
4.	Soviet Union	1991	To curb black money	Downturn of economic activity and disintegration of USSR.
5.	Australia	1996	To stop forged money.	Move became successful and the country became a business-friendly country.
6.	European	2002	To have a common currency	Currency change became

	Union		for member nations.	successful.
7.	North Korea	2010	To curb black money	Move rebounded, led to hike in price of necessity goods.
8.	Zimbabwe	2015	To tackle hyperinflation	Move turned out to be unsuccessful and exports became expensive.
9.	India	2016	To unearth black money and to eliminate usage of counterfeit money to fund terrorism.	Terrorism activities were reduced and black money was not completely unearthed. Moreover, digital transactions were increased.

The governments around the world announced demonetization for different purposes- commonly curb black money, suppress tax evasion, and eliminate usage of counterfeit money. Most of the governments could not realize the main purpose of demonetization. It was proved as an unsuccessful move.

Short-run impact of demonetization on PMJDY scheme

The study provides an analysis of the short-run impact of demonetization on PMJDY scheme. Fig. 1 and table 2 show the short-run impact of demonetization on the number of PMJDY beneficiaries. There has been a marginal increase in number of PMJDY beneficiaries in all banks in both periods (pre and post demonetization). However, PSBs alone have the maximum number of beneficiaries i.e. around 79.81% at one day after demonetization, followed by 16.91% at RRBs and 3.28% at private banks.

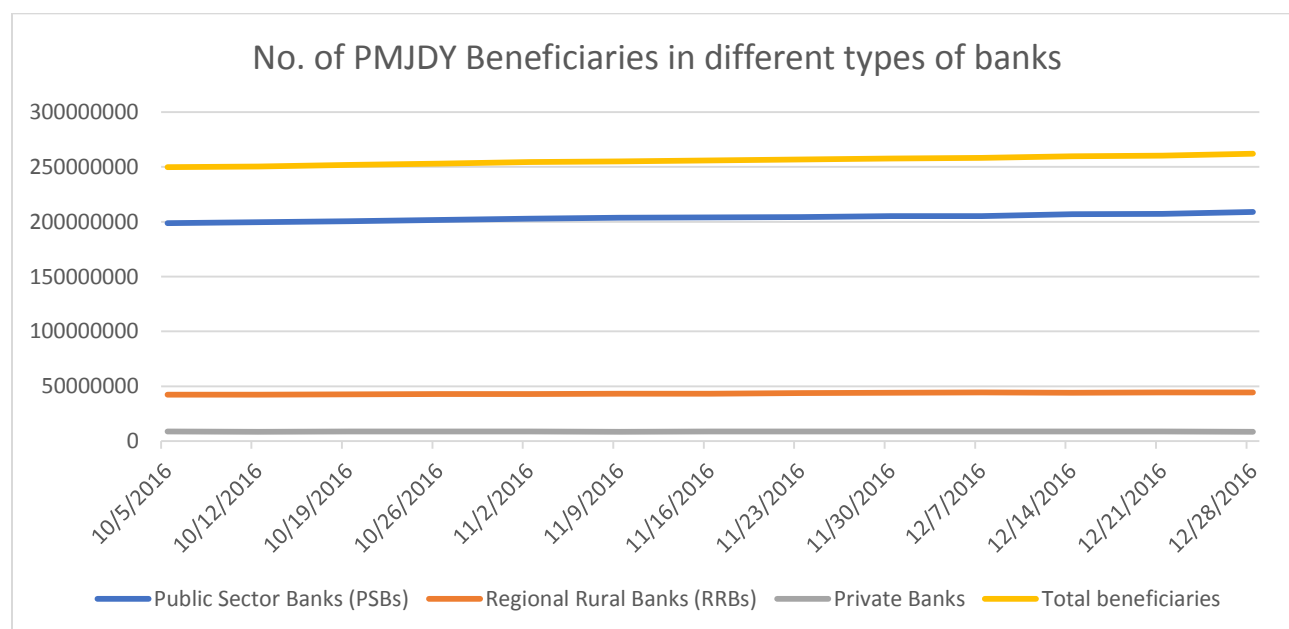


Fig 1: Short-run impact of demonetization on no. of PMJDY Beneficiaries

Table 2: Number of PMJDY Beneficiaries in different types of banks pre and post demonetization.

Time (Wednesday of every week)	Public Sector Banks (PSBs)	% in total	Regional Rural Banks (RRBs)	% in total	Private Banks	% in total	Total beneficiaries
05-10-2016	198842845	79.59	42389089	16.97	8606853	3.44	249838787
12-10-2016	199653574	79.70	42309273	16.89	8553664	3.41	250516511
19-10-2016	200631571	79.66	42595222	16.91	8617359	3.42	251844152
26-10-2016	201684052	79.67	42853806	16.93	8626409	3.41	253164267
02-11-2016	202824661	79.70	43024357	16.91	8640218	3.40	254489236
09-11-2016	203602613	79.81	43134969	16.91	8379223	3.28	255116805
16-11-2016	203881526	79.70	43311543	16.93	8618637	3.37	255811706
23-11-2016	204432267	79.62	43711957	17.02	8620261	3.36	256764485
30-11-2016	205114413	79.55	44110128	17.11	8622973	3.34	257847514
07-12-2016	205129504	79.44	44473771	17.22	8625441	3.34	258228716
14-12-2016	207037837	79.70	44120633	16.98	8624178	3.32	259782648
21-12-2016	207325458	79.64	44360158	17.04	8636483	3.32	260322099
28-12-2016	209055345	79.79	44433417	16.96	8530696	3.26	262019458

Fig. 2 and table 3 show that there has been a sharp increase in total deposits in all banks in a week after demonetization. Deposits at PSBs, RRBs and private banks increased by 40%, 43% and 49% respectively in a week time from 09 November 2016 to 16 November 2016. The reason was that people were depositing old Rs 500 and Rs 1000 notes in their accounts. However, when the new currency started to float, people started withdrawing the amount. Hence, after 07 December 2016, deposits at all banks have been declining.

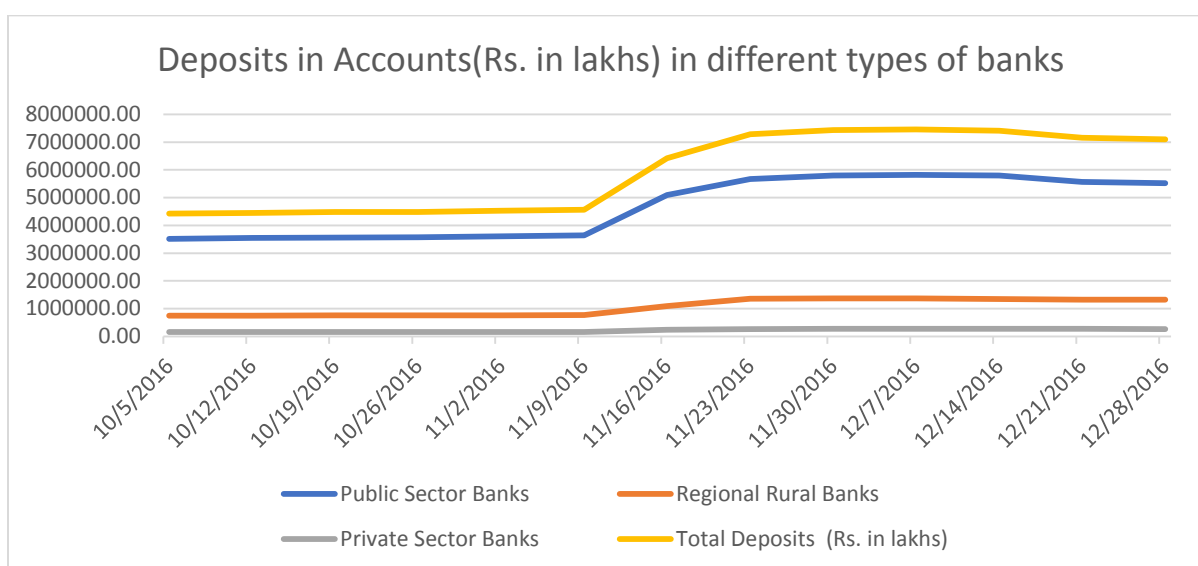


Fig 2: Short-run impact of demonetization on Deposits in Accounts (Rs. in lakhs)

Table 3: Deposits in accounts (Rs. in lakhs) in different types of banks pre and post demonetization

Time (Wednesday of every week)	Public Sector Banks (PSBs)	% in total	Regional Rural Banks (RRBs)	% in total	Private Banks	% in total	Total Deposits (Rs. in lakhs)
05-10-2016	3513779.24	79.46	747906.21	16.91	160441.49	3.63	4422126.94
12-10-2016	3551421.82	79.84	745265.21	16.76	151324.86	3.40	4448011.89
19-10-2016	3564925.42	79.62	752981.74	16.82	159548.50	3.56	4477455.66
26-10-2016	3575441.60	79.69	754197.60	16.81	157088.58	3.50	4486727.78
02-11-2016	3607462.11	79.63	762164.42	16.82	160621.86	3.55	4530248.39
09-11-2016	3640384.72	79.77	763075.08	16.72	160201.13	3.51	4563660.93
16-11-2016	5093377.72	79.27	1093502.98	17.02	238334.90	3.71	6425215.60
23-11-2016	5666805.36	77.80	1350709.42	18.54	265957.56	3.65	7283472.34
30-11-2016	5793974.53	77.96	1368211.92	18.41	269968.81	3.63	7432155.26
07-12-2016	5816594.45	77.96	1369793.69	18.36	274561.46	3.68	7460949.60
14-12-2016	5798844.97	78.23	1341111.73	18.09	272354.85	3.67	7412311.55
21-12-2016	5566195.70	77.79	1323235.73	18.49	266359.04	3.72	7155790.47
28-12-2016	5524652.27	77.77	1316826.60	18.54	262180.04	3.69	7103658.91

Conclusion

Curbing black money and corruption is essential for an economy to run smoothly. Demonetization move has helped to achieve this objective to some extent. In the short run, the number of PMJDY beneficiaries showed a marginal increase with maximum no. of beneficiaries in PSBs alone. The deposits also increased initially but people started withdrawing the amount as soon as the new currency started to float. The number of PMJDY beneficiaries in PSBs branches were the highest followed by regional rural branches and the private bank branches in the short run. There is a need to study the effect of demonetization on PMJDY in the long run.

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