

Demonetization and Financial Inclusion in the Indian Context

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Abstract – Financial Inclusion plays a pivotal role in the process of advancement and the sustainable development of any country. This paper deals with the concept of demonetization and financial inclusion in the Indian context because the issue of financial inclusion and demonetization in India becomes a challenge for the economy of India. In this paper, the researchers tries to presents the position of financial inclusion in India and initiatives taken by RBI and government and also study the importance of demonetization as a measure of financial inclusion. The data used for this research work in mainly based on secondary data. The secondary data are collected from various magazines, books, journals, articles, RBI reports and documents related to financial inclusion and demonetization. It can be concluded that financial inclusion is an important approach to remove poverty and for inclusive growth. The study also concluded that demonetization has encouraging impact on equivalent financial system; it has led to enhance financial inclusion.

Keywords: Financial Inclusion, Demonetization, Sustainable development, Indian Economy

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INTRODUCTION

The topic of financial inclusion and demonetization is emerging as the latest pattern of financial development. Financial Inclusion plays a pivotal role in the process of advancement and the sustainable development of any country. Financial inclusion denotes the ease of access, ease of use and usage of suitable financial services at reasonable cost to the disadvantaged and low income group. Demonetization is a take action where the previous part of currency gets retired by way of a new currency unit. It can also be considered as withdrawal of a specific currency from the market.

On Tuesday, 8th of November, 2016 Prime Minister of India Narendra Modi, announced the demonetization of Rs. 500 and 1000 with effect from midnight, making these notes invalid. The major reasons behinds this move were controlling black money, controlling fake currency and controlling corruption (Mali, 2016). Due to lack of access to a bank account and remittance facilities, the individual pays higher charges for basic financial transactions. Absence of bank account also leads to security threat and loss of interest by holding cash. All these impose real costs on individuals. Prolonged and persistent deprivation of banking services to a large segment of the population leads to a decline in investment and has the potential to fuel social tensions causing social exclusion. Thus, financial inclusion is essential for accelerated

economic growth of the country (Kumar & Kumar, 2016)

REVIEW OF LITERATURE

Review of related literature is the main part of any research work because it explores the research work already carried out in the related field of the study. The issue of financial inclusion in India has been subject to a great deal of academic scrutiny. A brief review of literature in the area of financial inclusion is as follows:

Agrawal (2008) explained the need of financial inclusion in the context of India. The study also highlighted the various policies that have been adopted in India for the same. The study concluded that financial inclusion alone will not be sufficient. The reforms in financial sectors have taken centre stage in Indian polity with substantial media coverage for the same.

Roy (2012) in their study presented the overview of financial inclusion in India and also highlighted the pros and cons of financial inclusion in India. The study pointed out that India's fastest growing economies have become possible through financial inclusion.

Gandhi (2013) studied the issues and challenges of financial inclusion in India. The study stressed the need of matured, positive attitude, and approach and

sound strategy to achieve complete financial inclusion. It also looked of some of the business model and essential elements of financial inclusion so as to increase the meaningful and whole hearted participation of the banks in achieving complete financial inclusion. It concluded that only sound and strong institutions can promote financial inclusion in a sustainable manner. It also suggested that there is a need to deploy new technologies and create financially viable models to take forward the process of financial inclusion in an effective manner.

Babu (2015) studies the challenges and opportunities of financial inclusion in India. The study concluded that financial inclusion is indeed a worthy effort by RBI to bring unbanked to the banked. The study also suggested that the perception of financial inclusion is not an exception from the challenges.

Kaur (2016) in their study discussed the impacts of recent demonetization on the Indian system. The study showed that the decision of demonetization will definitely give the positive results in long run. It also concluded that demonetization would be positive for banking and infrastructure sector in the medium to long term.

On the other hand the study conducted by **Kumar and Kumar (2016)** in their study explained the advantages & disadvantages of demonetization and also explained the concept of demonetization as a tool of financial inclusion. The study concluded that demonetization will have a massive impact on parallel economy. It also concluded that the current demonetization initiative of the government of India will also impact corruption, election and terrorism. The study also concluded that it has led to increased financial inclusion and this momentum should be continued till India achieves complete financial inclusion.

T.I (2016) in their study focused on various initiatives taken by government and RBI and also the latest attempted on demonetization its expected impact on various sectors. The results of the study concluded that there is an imperative need to modify the credit and financial services delivery system to achieve greater inclusion. The latest solution for this is the demonetization. It also revealed that it is expected that demonetization provides a boost to government financial inclusion drive.

Mali (2016) in their study discussed the effects and reasons of demonetization on different sectors in India and concluded that there have some positive and negative impacts of demonetization on different sectors in India and showed there will be a long run impact of demonetization in India and the another study given by **Sinha and Rai (2016)** in their study reviewed the general implications of demonetization on rural people.

Review of literature in depth indicates that there is a need of the study of the different concepts of financial inclusion and demonetization in India because financial inclusion and demonetization becomes a challenge for the economy of India.

OBJECTIVES OF THE STUDY

The main objectives of the study are stated below:

- (1) To know the importance of the financial inclusion.
- (2) To study the importance of demonetization as a measure of financial inclusion.

RESEARCH METHODOLOGY

This paper deals with the concept of financial inclusion in the Indian context because the issue of financial inclusion in India becomes a challenge for the economy of India. In this paper, the researcher tries to present the position of financial inclusion in India and also studies the importance of demonetization as a measure of financial inclusion. The data used for this research work is mainly based on secondary data. The secondary data are collected from various magazines, books, journals, articles, RBI reports and documents related to financial inclusion and demonetization.

Importance of Financial Inclusion in India

- Financial Inclusion is useful for growing efficiency of public programs.
- Financial Inclusion is an essential provision for supporting impartial development.
- Financial Inclusion protects the poor people from the command of moneylenders.
- Financial Inclusion is useful for improving the saving with the help of it country's capital formation is increasing and it giving to boost the economy.
- Financial Inclusion helps in ensuring a sustainable improvement.

Demonetization as a measure of Financial Inclusion

- The demonetization has shaped wonderful momentum towards better financial inclusion.
- With the help of demonetization, black money will be in use of Indian economic system.

- Demonetization would be useful for reducing the cash transactions in real estate.
- Demonetization would be useful for getting fake currency out of distribution in a country's financial system since such currencies cannot be deposited in banks and other financial institutions.
- With the impact of demonetization, there would be some transparency in the political elections because the concept of demonetization has socked political parties.
- Demonetization promotes cashless financial system and boost in the apply of digital monetary services.
- The decision of demonetization taken by govt. will help to element corruption to the large point.
- Demonetization is also useful for reducing the size of the parallel economy and boosts savings and deposits.
- The concept of demonetization would be helpful for reducing the illegal activities.

Demonetization has turn out to be approval in disguise to the reason of financial inclusion. Though demonetization has halted all usual banking dealing operations and failure of revenues temporally, it has not moved out waste and served the rationale of financial inclusion.

CONCLUSION

This paper presents the concept of financial inclusion and demonetization in the Indian context because the issue of financial inclusion and demonetization in India becomes a challenge for the financial system of India. The paper, presents the importance of financial inclusion in India and demonetization as a measure of financial inclusion. It can be concluded that financial inclusion is an important approach to remove poverty and for inclusive growth. The study also concluded that demonetization has encouraging impact on equivalent financial system; it has led to enhance financial inclusion.

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