

DEMONITISATION – A MASTERSTROKE FOR THE DIFFERENT SEGMENTS OF INDIAN ECONOMY

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ABSTRACT

Prime Minister of India, Mr Narendra Modi, took the entire country by surprise when he declared demonetization of INR 500/- (USD 7.69) and INR 1,000/- (USD 15.4) currency on 8th November, 2016. As per Modi Government, the agenda of this move has 3 fold: (i) To eliminate counterfeit currency; (ii) To shrink the size of the parallel economy and black money in India; and (iii) To reduce corruption. While this is the third time in the Indian history that Indian high value currency has been stripped of its status as a legal tender, the first two instances of demonetization did not have an impact like the recent one. This is primarily because, this time, the demonetized currency represents 86% of the total currency in circulation. It was a radical monetary step in which a currency unit's status as a legal tender is declared invalid. This is usually done whenever there is a change of national currency, replacing the old unit with a new one. It is absolutely was a radical financial step in which a currency unit's standing as a legal tender is asserted invalid. This is usually done whenever there is a change of national currency, replacing the previous unit with a new one. This article has made an attempt to assess the impact of currency demonitisation on different sectors of the Indian economy.

Key Words: *Demonetization, Black Money, Government, Corruption & Currency Etc.*

I. INTRODUCTION

The term demonetisation has become a household name since the government pulled the old Rs 500 and Rs 1,000 notes out of circulation. While as per dictionary demonetisation means "ending something (e.g. gold or silver) that is no longer the legal tender of a country", one needs to see if there is anything more to the word. On the 8th of November, 2016 when the sun had descended below the horizon and the light of day had completely faded, when people were returning back home from a long day at work, a misty light of a new economy was brewing over the country. All INR 500/- and INR 1000/- banknotes of the Mahatma Gandhi Series ceased to be legal tender in India from 9 November 2016. The government claimed that the demonetisation was an effort to stop counterfeiting

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of the current banknotes allegedly used for funding terrorism, as well as a crack down on black money in the country. The move was described as an effort to reduce corruption, the use of drugs, and smuggling. However, in the days following the demonetisation, banks and ATMs across the country faced severe cash shortages. Also, following Modi's announcement, the BSE SENSEX and NIFTY 50 stock indices crashed for the next two days. The term demonetisation has become much more than a household name since the old Rs 500 and Rs 1,000 notes were pulled out of circulation. While as per dictionary demonetisation means "ending something (e.g. gold or silver) that is no longer the legal tender of a country", one needs to understand that there is much more than the literal meaning to the word. One need to understand that 80% of India's labour force is employed in the informal sector, which comprise of 45% of the GDP of our country. Over 60% of population of India lives in below the international poverty threshold line of 1.9\$ per day. Since our economy is an under banked economy, present demonetisation move, would no doubt cause a severe social experiment, across the segment of our population. At the first place, and on a short term basis this move would benefit the Government, which shall effectively deploy its resources to percolate the impact to the poor and needy of our country.

II. HISTORY

Here's looking at some interesting facts about the history of demonetisation of Indian currency:Rs 1,000 and higher denomination notes were first demonetised in January 1946 and again in 1978.The highest denomination note ever printed by the Reserve Bank of India was the Rs 10,000 note in 1938 and again in 1954.But these notes were demonetised in January 1946 and again in January 1978, according to RBI data.Rs 1,000 and Rs 10,000 bank notes were in circulation prior to January 1946.Higher denomination banknotes of Rs 1,000, Rs 5,000 and Rs 10,000 were reintroduced in 1954 and all of them were demonetised in January 1978.The Rs 1,000 note made a comeback in November 2000. Rs 500 note came into circulation in October 1987.However, this is the first time that Rs 2,000 currency note is being introduced.Bank notes in Ashoka Pillar watermark series in Rs 10 denomination were issued between 1967 and 1992, Rs 20 in 1972 and 1975, Rs 50 in 1975 and 1981 and Rs 100 between 1967-1979.The banknotes issued during this period contained the symbols representing science and technology, progress and orientation to Indian art forms.In the year 1980, the legend Satyameva Jayate -- 'truth alone shall prevail' -- was incorporated under the national emblem for the first time.In October 1987, Rs 500 banknote was introduced with the portrait of Mahatma Gandhi and Ashoka Pillar watermark.Mahatma Gandhi (MG) series banknotes - 1996 were issued in the denominations of Rs 5, (introduced in November 2001), Rs 10 (June 1996), Rs 20 (August 2001), Rs 50 (March 1997), Rs 100 (June 1996), Rs 500 (October 1997) and Rs 1,000 (November 2000).The Mahatma Gandhi Series - 2005 bank notes were issued in the denomination of Rs 10, Rs 20, Rs 50,

Rs 100, Rs 500 and Rs 1,000 and contained some additional/new security features as compared to the 1996 MG series. The Rs 50 and Rs 100 banknotes were issued in August 2005, followed by Rs 500 and Rs 1,000 denominations in October 2005 and Rs 10 and Rs 20 in April 2006 and August 2006, respectively.

III. REVIEW OF LITERATURE

1. Mukhrjee et al. (November 2016). studied about the impact of the present government move for demonetization on the credit availability, government finance, spending and levels of various activities. The researchers stated that in a very short period there would be more serious affect on persons earning income in cash as well as spending in cash while impact will be up to a lesser extent on those earnings in non-cash form but spending in cash. Each sector backing demand by cash along with the real sector especially the unorganized one will much adversely effected in very short run time. In case of short term effect having complete replacement, an immense strengthening of informal sector credit market would be seen in the rural market and there would be adverse affect on construction sector. The medium term impact would produce results in terms of enhancements in deposits in the economy.
2. Mohd. (November 2016) studied about the significance as well as challenges of demonetization of currency notes. Secondary data was used for this study collected from various newspapers as well as websites. The researcher concluded through the study made that no doubt this move was going to disturb the routine life of 'Aam Aadmi' (common man of India) influencing largely the unorganized sector including organized sector up to a limited extent but the real consequences of move will have bigger implications on the Indian economy as a whole in the long run.
3. Sunita (September 2014) in her research study attempted to get insight about the reasons as well as measures adopted by the government on demonetization that was implemented in Indian context. It was a conceptual study based on secondary sources. She concluded that the enhancing trade deficit, 1965's war between India and Pakistan, gulf war, political as well as economic stability, dwindling foreign exchange reserves, withdrawn of FII's (Foreign Institutional Investors) and strengthen of dollar were the key reasons behind the move for demonetization by the government in India and the measures adopted by the government included imposition of quantitative restrictions, provision for export subsidies, establishment of dual exchange regime, adoption of floating exchange rate system, increase in FII's limit, enhancement of ceiling up to a limited time frame, use of some proportion of borrowed funds overseas for the domestic expenditure, withdrawn of rebooking of forward contracts post cancellation and reduction of NOOPL (Net Overnight Open Position Limit).

4. Partap and Virender (December 2016) studied about the impact of demonitisation on Indian economy and concluded that a disruption was held in the current liquidity situation as households were more likely to get affected by the note exchange terms laid by the government. It is important to note that a significant percentage of the Indian workforce is employed in this sector, which is likely to be affected by immediate liquidity issues. Overall, negative impact on disposable income is expected along with likely disruption in the consumption patterns of the general populace. It is estimated that there will be a negative GDP impact in the current quarter as consumption gets a shock in the immediate term. However, quantum and degree of this impact cannot be ascertained at this time.

IV. OBJECTIVE OF STUDY

The study has following objectives:

1. To cognize the concept of demonitisation.
2. To analyze the impact of Demonetization on different segments of Indian economy.
3. To analyze the future impact of Demonetization on Indian Economy.

V. RESEARCH METHODOLOGY

The researcher used an explorative analysis technique supported past literature from various journals, annual, reports, newspapers and magazines covering wide assortment of educational literature on demonetisation. The sources of data include the facts released by Reserve Bank of India (RBI), Exchange, Central statistics office India and Different banks websites.

VI. CONCEPTUAL FRAMEWORK

Reasons behind Demonetization: As per my study Following is the main reasons behind Demonetization.

1. Black Money:- A recent study had pegged India's black market economy at over Rs 30 lakh crore or about 20 % of total GDP. This is even bigger than the GDP of countries like Thailand and Argentina. And thus after this Decision black money holders are left with just two options – either route this money through banks, declaring it to be their income or burn the stashed file.

2. Fake Currency & Terrorism: - —Terrorism is a frightening thing. But have you ever thought about how these terrorists get their money? Enemies from across the border have run their operations using fake currency notes. This has been going on for years.

3. Economy:- The Major impact of this decision is on the economy because it gives highly positive impact on the economic Stability in near future. The coming six to seven months are expected to witness a considerable level of deflation. Sectors like real estate, construction material, Gold, unorganized trade and services will see significant pain in the near time.

4. Election: - We all know how much black money is used by political parties. It will be a very tough task to use trucks of money at least for the upcoming five state elections. Now in upcoming UP election which was held in January neither of the parties can purchase the vote of poor people and Some drastic change in the elections going to be seen by everyone.

5. Unorganized Trading:- a.) Prices hike in Real estate sectors is mainly because of the involvement of black money, but after taking this decision the prices of property will surely come down to their real value. b.) Unorganized dealing in share market will also be eliminated after this decision and this will gain positive result in the economic condition of the country.

c.) The problem of inflation will get solved with this step as the government will get more money in its pocket in form of taxes and undisclosed income.

d.) Banking system will also get strengthened as banks will be flooded with huge amount of money. This will also result in more economic development in the nation as the money will be channelized properly through banks.

6. Less Cash Economy: - It is not possible to make India Cash-Less economy, but for the development and making transparency in the economy we can say use of less Cash is possible. So for making people familiar with E-Payment and use of plastic currency

VII. IMPACT OF DEMONITISATION ON INDIAN ECONOMY

Impact of Demonetization Issues & Challenges:

Demonetization technically is a liquidity shock; a sudden stop in terms of currency availability. It creates a situation where lack of currencies jams consumption, investment, production, employment etc. In this context, the exercise may produce following short term/long term/, consumption/investment, welfare/growth impacts on Indian economy. The intensity of demonetization effects clearly depends upon the duration of the liquidity shocks. Following are the main impacts.

1. Demonetization is not a big disaster like global banking sector crisis of 2007; but at the same time, it will act as a liquidity shock that disturbs economic activities.

2. **Liquidity crunch (short term effect):** liquidity shock means people are not able to get sufficient volume of popular denomination especially Rs 500. This currency unit is the favourable denomination in daily life. It constituted to nearly 49% of the previous currency supply in terms of value. Higher the time required to resupply Rs 500 notes, higher will be the duration of the liquidity crunch. Current reports indicate that all security printing press can print only 2000 million units of RS 500 notes by the end of this year. Nearly 16000 mnRs 500 notes were in circulation as on end March 2016. Some portion of this were filled by the new Rs 2000 notes. Towards end of March approximately 10000 mn units will be printed and replaced. All these indicate that currency crunch will be in our economy for the next four months.

3. **Welfare loss for the currency using population:** Most active segments of the population who constitute the „base of the pyramid“ uses currency to meet their transactions. The daily wage earners, other labourers, small traders etc. who reside out of the formal economy uses cash frequently. These sections will lose income in the absence of liquid cash. Cash stringency will compel firms to reduce labour cost and thus reduces income to the poor working class. There will be a trickle up effect of the liquidity chaos to the higher income people with time.

4. **Consumption will be hit:** When liquidity shortage strikes, it is consumption that is going to be adversely affected first. Consumption ↓ → Production ↓ → Employment ↓ → Growth ↓ → Tax revenue ↓

5. **Loss of Growth momentum- India risks its position of being the fastest growing largest economy:** reduced consumption, income, investment etc. may reduce India" s GDP growth as the liquidity impact itself may last three -four months.

6. **Impact on bank deposits and interest rate:** Deposit in the short term may rise, but in the long term, its effect will come down. The savings with the banks are actually liquid cash people stored. It is difficult to assume that such ready cash once stored in their hands will be put into savings for a long term. They saved this money into banks just to convert the old notes into new notes. These are not voluntary savings aimed to get interest. It will be converted into active liquidity by the savers when full-fledged new currency supply take place. This means that new savings with banks is only transitory or short-term deposit. It may be encashed by the savers at the appropriate time. It is not necessary that demonetization will produce big savings in the banking system in the medium term. Most of the savings are obtained by biggie public sector banks like the SBI. They may reduce interest rate in the short/medium term. But they can't follow it in the long term.

7. **Impact on black money:** Only a small portion of black money is actually stored in the form of cash. Usually, black income is kept in the form of physical assets like gold, land, buildings etc. Hence the amount of black money countered by demonetization depend upon the amount of black money held in the form of cash and it will be smaller than expected. But more than anything else,

demonetization has a big propaganda effect. People are now much convinced about the need to fight black income. such a nationwide awareness and urge will encourage government to come out with even strong measures.

8. **Impact on counterfeit currency:** the real impact will be on counterfeit/fake currency as its circulation will be checked after this exercise.

Demonetization as a cleaning exercise may produce several good things in the economy. At the same time, it creates unavoidable income and welfare losses to the poor sections of the society who gets income based on their daily work and those who doesn't have the digital transaction culture. Overall economic activities will be dampened in the short term. But the immeasurable benefits of having more transparency and reduced volume of black money activities can be pointed as long term benefits.

VII. EFFECTS OF DEMONETIZATION

▪ **Maoists hit**

Chhattisgarh, Telengana, Andhra Pradesh and Orissa had 413 (2014) witnessed deaths in the North Eastern states with Assam being the highest; these deaths are a result of the Maoist activities. According to sources, Maoists had stashed over Rs.7000 crore at their dumps in Bastar region. Now all of that is nothing but a bundle of papers.

The demonetisation move has hit them hard, and their activities have totally come to stand still.

▪ **No stone-pelting in J&K**

Yes, you heard it right!!!

Since demonetization, incident of stone-pelting on armed forces has not been reported. The citizens of Kashmir have lauded this bold move by the NDA government, as first time in decades; the valley has remained peaceful for 5 consecutive days.

▪ **Burning schools stopped in J&K**

Education gives the ability to think, question and analyse to a person, which helps them differentiate between the right and wrong. The separatists and religious hard-liners would never want this to happen- people were hired to do violent acts, burn schools and spread fear amongst the people of Kashmir. With their hoarded, ill-gotten wealth turning into trash they have been left motionless. School burning incidents have stopped and just a day before, approx. 54,000 students appeared for their exams.

▪ **Corrupts burning cash**

Honest citizens are ready to do their bit for the country (to face hassles of currency exchange) and face this move with patience, as they know this bold move will make India- a world power.

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The corrupt people, who had stashed un-accounted cash in huge amounts, are spending their nights, burning their cash.

▪ **Arhar dal crashes to Rs.80/kg in UP**

With demonetization fear has gripped the black-marketers hoarding grains and pulses in their granaries. As government has promised more action in the coming days, stocks of arhar dal has increased in the market, and prices have crashed. According to a report, Arhar dal is being sold at Rs.80 per kilo, (down from Rs.120-Rs.130) in U.P.

▪ **Kirana shops/Panwalas installing debit card machines**

Demonetization has only instilled better sense in people. Going cashless, is one such example. People have started installing debit card machines and Paytm for cashless transactions, thus improving transparency in market- Kirana shops, Panwalas, Sherbet sellers, auto rickshaws etc. are examples where such cashless transactions are being done.

People have realised the benefits of having a cashless economy and like the government, the citizens too, are working towards the betterment of the country.

▪ **Municipalities making record recoveries of house tax**

For years, the municipalities were running behind people to pay their arrears on house tax, but in vain. Post demonetization, defaulters are paying their pending taxes, increasing cash coffers of the municipal corporations. The municipalities have made record recoveries of house tax this year, all thanks to the bold move of demonetizing larger bills.

▪ **Electricity companies making huge record recoveries of past arrears**

Like Municipalities, electricity providers are making huge recoveries of past arrears. The government has allowed acceptance

People can deposit old currency notes at many (public service providers) places, as electricity provider offices fall in that list, people are paying off their arrears with the demonetized currency notes.

▪ **Medicine shops making big sales**

As medicines and drugs fall under essential commodities list, one can use demonetized currency notes at medicine shops. People are flocking medicine shops and stocking up on medicines, in a bid to get rid of their old currency notes.

▪ **Delhi Metro smart cards sales increase**

One could expect less traffic in Delhi for a few months, as people have bought season tickets with their old currency. The air quality in Delhi has worsened, breaking the record of poor air quality in years; with lessened traffic one can expect some respite.

▪ **Many businessmen recovering past dues as old as 4 years and getting advance for new orders**

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Many business men deliberately don't make early payments, and continue doing business on credit. By doing so, they infuse the profits in their production cycle to double their profits - and most of it is in cash. The demonetization move has forced them to get rid of their hoarded black money. Now, they are not only paying their dues with interest, but are also making advance payments.

▪ **Huge opportunities for mobile wallets**

Digitization is the way to future. Post demonetization steep rise in the use of mobile wallets have been reported. The private sector online payments have reported a significant rise in the usage patterns by their users. Oxigen Wallet witnessed increase in the load money transactions by up to 40-45 per cent by the first half on Wednesday, and India's largest mobile payments platform Paytm also recorded 435 per cent increase in traffic on its platform, with add money transactions increasing by 1000 per cent.

In India most of the transactions are done through cash. According to various data released: less than 5% of all payments happen electronically. The ratio of cash to gross domestic product is one of the highest in the world—12.42% in 2014, compared with 9.47% in China or 4% in Brazil. The number of currency notes in circulation is also far higher than in other large economies; India had 76.47 billion currency notes in circulation in 2012-13 compared with 34.5 billion in the US

If we manage to tap even half of the cash transactions, then India's GDP will reach to new highs.

▪ **Banks plush with funds. Rs.3 lakh crore banked in 4 days!!! Cost of funds reduced for bank**

As people are depositing their old currency notes, banks have reported huge surge in their cash coffers. According to a report, banks have cumulatively collected more than Rs.3 Lakh Crore in just 4 days. In the coming days the amount is only going to increase. This will bring down the interest rates for loans. Many have already slashed their interest rates.

▪ **Labourers paid Dihadi for standing in queues**

If you have visited any bank, or been in a queue to exchange your old currency notes, one could only see either the middle class or the poor. The rich have found their way to the new currency, sans standing in queues. Businessmen are using their labourers to get their money exchanged and for that they are being lured with fat commissions.

▪ **All property deals involving black money in jeopardy. Bayana in jeopardy**

Bayana- An Indian term used to denote the token money given to the landlord to informally freeze negotiations on a particular property, after the initial terms and conditions have been formalised. Such payments are done in cash, and not documented. Property deals involving black money have been hit hard; the builders (construction) lobby are one of the largest hoarders

of black money. One may witness a slowdown in the realty market, but in future they wouldn't get involved in such activities.

- **Property prices come down by 25%**

With the black money being driven out from the market, the prices of unsold units will witness a slump in prices, the property prices are expected to come down by 25%.

- **Democracy deepened. All castes/creeds standing in same queue.**

Demonetization has brought all of us in one big frame. People are standing in queues and helping each other irrespective of ones' caste or creed. The real essence of democracy is being witnessed.

- **Fake currency rackets hit**

A recent study commissioned by the NIA showed that 250 in every 10 lakh notes in circulation in India are fake, with FICN (Fake Indian Currency Notes) bearing a face value of Rs 400 crore in circulation at any given point in time. (Reported by TOI) The study stated that FICN worth Rs 70 crore was being infused into the Indian market every year. The fake currency racketeers have been left with trash, and with high security features in the new Indian currency notes; making a counterfeit is impossible.

- **Political parties spends in Punjab/UP hit**

Come elections, and you could witness money being showered on voters. With demonetization, political parties with black money wouldn't be able to woo voters.

We can hope, there will be fair voting in the upcoming state election of Punjab and UP

- **Drug peddlers in Punjab hit**

The only state to have suffered the drugs menace is Punjab. The drug peddlers have run back into their rat holes post demonetization. The drugs business is the most important, in a shadow economy. The drugs business has completely stopped in the state, as transactions were done only in cash.

VIII. CONCLUSION

The move taken by the present central government as announced by our Honourable PM was the biggest move towards demonetization in Indian history in itself. The government has attempted to tackle all the three issues affecting the economy i.e. a parallel economy, counterfeit currency in circulation and terror financing. From the above research paper it is concluded that Demonetization is the act of stripping a currency unit of its status as legal tender. We can say that demonetization of currency was a historical and daring step and it should be supported by all. One should look broad and it will fetch results in the long time. It would increase the deposits in the banks and revenue base of

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the governments that can be used for development of our country The problems of demonetization can be overcome by encouraging small and medium scale traders towards online transactions and by orienting people towards online transactions. No doubt, Indian citizens have suffered a lot and suffering to some extent even today. Unorganized sector is facing much trouble due to lack of cash with people. Most of the sector has its impact but all the issue mentioned above stand for very short period to short period only. The real picture of India will definitely change and Indian economy will emerge as one of the strongest economy in the world.

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