IMPACT OF DEMONETIZATION: AN ANALYTICAL STUDY

Dr. Ramraj T. Nadar
Assistant Professor
Guru Nanak College of Arts, Science and Commerce,
G.T.B. Nagar, Mumbai, India
Email: tramraj@hotmail.com

Shoba James
Assistant Professor
Tilak College of Science & Commerce,
Vashi, Navi-Mumbai, India
Email: shoba_rs@yahoo.com

ABSTRACT

The decision to implementation was to eliminate black money from the Indian economy. The success of demonetization is to be seen in the coming days. However, the implementation of this historic move left millions of distress too. This paper tries to analysis through primary and secondary data with an attempt to address these issues whether the pain would be worth gain. Demonetization has undoubtedly given a tremendous impetus to digital transactions. If the Demonetization brings down the corruption, black money and money laundering to some extent in the society, it will become the success story and the boon to the Indian economy. Government role is most important to plan, modify, analyze the prevailing situation and implement the system on time. The impact of demonetization has been analyzed in detail about its positive and negative with various dimensions with the help of collected information from various reliable sources. The various phases of demonetization and its level of impact also analyzed. This paper tries to focus on the problems and prospects of demonetization on Indian economy and its future.

Keywords: Demonetization, Corruption, Black Money, Money Laundering, Society

INTRODUCTION

Area-wise, India is the seventh largest country in the world & second in terms of population. Its seventy years since India got independence, but still democratic India has not been able to become developed economy. The question here is why? Demonetization is one of the developmental measures which will make India a step ahead. It is the solution to destruction social evils such as parallel economy, black money, counterfeit notes, terror funding.

Prime Minister Narendra Modi’s sudden unscheduled announcement on 8th of November 2016 at 20:15 IST by a television conference about demonetization shocked the Indians. With the senior Economist Anil Bokil’s ideas, this was the second most progressive step since 1991. New Economic policy, which will distort economy initially but will benefit and will have positive impact on each sector. Just like every coin has two sides there was faculty implementation of this scheme. Demonetization has affected each and every segment of an economy and every individual in India. People’s opinion whether in news channels, newspapers or in social media was in favor of this initiative & 93% of the people supported this, honest tax payers & generous people welcomed this move with cash shortage problems.
DEMONETIZATION IN INDIA

- First time on 12 Jan 1946 (Saturday),
- Second time on 16 Jan 1978 (Monday),
- Third time on 8th November 2016 (Tuesday).

IMPORTANCE OF THE STUDY

The study has imparted immense knowledge on the impact of demonetization, it has caused cash shortage problems to the society but people gladly accepted it. The study has brought the actual scenario in front & has slashed all the rumor & forecasts. Reading, understanding, analyzing & studying of various aspects have unfolded the hidden reality. The present study is emerging like a people’s issue and in turn affected their daily life during the period of demonetization. As stated above, 93 percent people were in favor of this move. The topic was relevant and pertinent as per the prevailing scenario. Hence, the topic impact of demonetization has been selected to study in detail.

OBJECTIVES OF THE STUDY

The main objective of the study is to bring reality of the present scenario of demonetization. To what extent & how demonetization influences the people, business & Government activities, the counter effect of these on order activities. The analysis of immediate and long term effect as well as negative & positive impact has laid down the steps to achieve the objectives and also future prospects of the current scenario. Considering the above in mind, the following objectives were drawn;

1. To understand the concept of demonetization
2. To know the impact of demonetization on Indian Economy
3. To examine the impact on black money, fake currency and terror funding etc.

RESEARCH METHODOLOGY

The study is based on secondary data. The data were collected from both published and unpublished sources. Qualitative & Quantitative measures have been used and analyzed during the course of study. Smart charts, Newspaper cuttings, Articles etc. have been inserted with source so as to understand in better form. The collected information has been presented in two broad categories i.e. Positive & Negative. Immediate and long-term are the sub-categories in both.

LIMITATIONS

The study is limited to the use of secondary data. Only secondary data has been collected & used during the course of study. The data was collected from 8th of November 2016 to till date future prospects have been taken into consideration based on forecasts an economy and by study of Economics.

OBSERVATION FROM THE STUDY

Positive Impact

I. **Black Money – Disclose/Dispose**: Over 25% of the GDP is in Black form. It means parallel economy is one fourth or the whole economy. The option before the black money holder either was disclose or dispose. By disclosing they welcome the levy of tax at 49.9% of total amount disclosed and no other proceeding under Income Tax Act can be initiated based on declaration. For disposing they use various illegal methods to get rid of it.
II. Surgical Strike Against Counterfeit Currency

Has demonetization disposed of fake currencies usage leads to unauthorized increase in money supply thus triggering inflation?

Of the 90.26 billion Indian currency notes in circulation in 2015-16 no more than 0.63 million i.e. 0.0007% or seven-millionths of 1% seven in every million were detected as fake, according to RBI data.

III. War Against Terror Funding: Pakistan- and POK-based terror outfits such as the Lashkar-e-Toiba, Jaish-e-Mohammed and Hizb-ul-Mujahedin and other smaller terror groups have taken a hit of close to Rs. 20 crore. Minister of State for Home Kiren Rijiju said demonetization has wiped out the Fake Indian Currency Notes (FICN) network, estimated to be worth Rs 400 crore. Since November 8, not a single instance of FICN smuggling has been reported from Pakistan, Nepal or Bangladesh border. Today, the whole world is praying for peace, terrorism is surviving because of terror funding & illegal activities by terror supporters for personal gains. Thus it would be total affected after demonetization.

IV. Prevention Of Corruption: Corruption is a great challenge in front of Indian economy because of which Indian has not been able to develop especially in Government institution. Demonetization is likely to curb coercive corruption considerably. Digitalization has brought and will bring more and more transparency. Even social activist Anna Harare supported this move with the reason that it will curb corruption.

V. Banking To Unbanked

Has demonetization disposed of fake currencies usage leads to unauthorized increase in money supply thus triggering inflation?
Earlier people had option to exchange or deposit old invalid currency notes. Banking sector has played a very important role in demonetization & remonetization. This has enhanced banking habits of the people. People especially those who were unbanked yet, undertook the financial services. Thus created banking habits among people and People opened bank accounts for depositing currencies.

VI. **Emerging digitalization:** It has sown seeds people started using digital modes for payments BHIM app was launched by PM modi on Dec 30, may 2016 this app lets used pay & receive money with no processing fee. A transaction cost however may be levied by user bank, creating an environment for cashless and digital economy.

VII. **Radical Groups and Hawala Operations:** The surrender rate has reached its highest since the demonetization is announced. It is said that the money these organizations have collected over the years have left with no value and it has caused them to reach to this decision. The move also reportedly crippled Communist guerrilla groups (Naxalites) financing through money laundering. Mumbai Police reported a setback to Hawala operations. Hawala dealers in Kerala were also affected. The Jammu and Kashmir Police reported the effect of demonetization on hawala transactions of separatists too.

VIII. **Outcomes from IT Raids and excess deposits:** Over Rs 3,185 crore of un-disclosed income has been detected while Rs 86 crore worth new notes have been seized by the Income Tax department as part of its country-wide operations against black money hoarders post the demonetization of two high value currencies by the government.

**Negative Impact**

I. **Cash Crunch**

The above chart illustrates that Indians spend cash in liquid for as compare to the rest of the world. More than 98 percent of our transactions are based on cash. This leads to cash crunch during the demonetization period. As Modi ji announced demonetization on 8th November 2016 and 2 days gave bank holiday. Banks started to give only Rs.2000 which was impossible to get a change of it. People faced a lot of problems due to cash shortage.

II. **Impact on Informal Sector:** It has clearly caused consideration inconvenience as people with perfectly legitimate quantities of old notes of Rs.500 and Rs.1000 have to queue up at banks to exchange them into new notes.

III. **Non Functional ATMS:** In some areas ATMS were closed because of this movement and now how also in some ATMS there is problem because of late installation of new notes. Rich people were using bank employees help and made common people standing in the queue. Banking employee’s had to work overtime and had to manage a big queue, which was a
dangerous situation, due to poor banking services. Common man had to stand for a long time in a queue.

IV. Deaths: Several people (100) aware were reported to have died from standing in queue for hours to exchange their old bank notes.

V. Transportation halts: After the demonetization was announced, about 800000 trucks drivers were affected with scarcity of cash, with around 400000 trucks stands at major highways across India were reported. While major highways toll junctions on the Gujarat and Delhi. Mumbai highways also saw long queues as toll plaza operators refused the old bank notes.

VI. Drop in Industrial Output: There was a reduction in industrial output, as industries were hit by the cash crisis. The Purchasing Managers Index (PMI) fell to 46.7 in November from 54.5 in October, regarding its sharpest reduction in 3 years. A reading above 50 indicates growth and a reading below shows contraction. This indicates a slowdown in both manufacturing & services industries. The growth in 8 cores sectors such as cement, steel, refinery products; which constitute 38% of the index of Industrial production (IIP) was only to 4.9% in November as compared with 6.6% in October.

VII. Stock Market Crashes:

The stock market indices dropped to an around six-month low in the week following the announcement. BSE SENSEX crashed nearly 1689 points and NIFTY 50 plunged by over 541 points. By the end of the intraday trading section on 15th November 2016, the BSE SENSEX index was lower by 565 points and the NIFTY 50 Index was below 8100 intraday.

VIII. Not Reached Expectations: This movement was started to bring out black money but black money was not revealed as per expectations. Because in midnight many people purchased gold which led gold rate to increase? Rich people were converting their money into white by depositing in various persons accounts which made this movement unsuccessful.

CONCLUSION

According to a report by Bloomberg, quoting sources in the know, banks have received 14.97 trillion rupees ($220 billion) as of December 30, which was the deadline set by the government for individuals to return their currency notes. As much as 97 per cent of currency notes, outlawed by the government on November 8, 2016, have reportedly returned to banks.

In spite of cash crunch people gladly accepted it because they expect huge change in the monetary system which was not taken place over the years. Moreover, they also expect change in the economic movement in India. India needs full-pledged economic revamping for that the demonetization is must.
Due to formal economy, each and every penny will be accountable in both individual and society. Demonetization led to digitalization in India. Cashless economy is very well accepted worldwide.

Though there are many positive and negative impacts are there due to demonetization, the negative impact is for short-run while the positive impact will be in the long-run.

**FURTHER RESEARCH SCOPE**

There are number of opportunities to conduct research in the field of demonetization. Though this report is restricted to only 8th November, 2016 to 31st December, 2016, there are various research can be done after the deadline. The area of the study was not restricted in this research, so the scope to carry out many research in any area which will differ from one place to another. There are number of sectors which have been affected due to demonetization which can be dealt separately. Government can also take precautionary measure whenever they do such kind of sudden revolution to test the liquidity of our monetary (cash) system.

**REFERENCES**