



THE OTHER SIDE OF DEMONETISATION IN INDIA – SOME FACTS AND FIGURES

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ABSTRACT :

Indian government has taken a daring call on note ban on 08/11/2016. Central government was a considered, well-thought out and well-implemented step, and whether or not it would very eradicate all the present black cash. Here I have utilized the opinions of great expert on economics, financial economist and intellectual politicians. This study will help us to know about the positive and negative impact of note ban decision taken by Indian government. This study is purely based on secondary data, which is collected from news papers, magazines, websites from internet, some useful books related to topic etc.

KEYWORDS : Demonetization – Causes – Consequences – Impediments – Achievements.

INTRODUCTION

Demonetization is that the act of adjusting the existing currency in another kind. The old units should be retired and replaced by new currency. In other words demonetization means either introducing new notes or coins of the same currency or fully replacing the old currency with new currency. There is an one important thing exist on economics, which is demonetization, in which forms of payment is restored as legal tender. There are so many reasons, why governments demonetized their nation's currency. Some reasons area units like resisting inflation, resist corruption, and discourage a money system within the country. In November 2016, The Indian government has taken a bold step to demonetize the 500 and 1000 Rs (fully ban). Currency notes, these two biggest denominated notes accounted 80% of the currency supply. The government's main objectives of note ban is, to eradicate counterfeit currency, resist tax evasion, destroy the black money, and terrorist financing activities, and to encourage the country towards the cashless economy. This decision taken by government is for welfare of the nation, but so many questions comes in mind that, would note ban decision actually eradicate the black money, if does then at what extent black money will come out. What should be the impact of this decision on Indian economy? Would Indian economy be prosperous or would be poor.

OBJECTIVES OF THE STUDY:

- 1) To know about actual present outcomes of the note banned decision.
- 2) To know the potential of the note ban conclusion.
- 3) To estimate the cost for future of the note ban pronouncement.
- 4) To know the impact of note ban decision on the Indian economy.

Demonetisation hit India's economic activity within the amount following November 8, 2016, event however the impact had dissipated by the summer of 2017, same a operating paper by the US-based National Bureau of Economic Research. "Our results imply demonetisation down the expansion

rate of economic activity by a minimum 2 percentage share points in the quarter of demonetisation," same the operating paper entitled 'Cash and the Economy: Evidential proof from India's Demonetisation.' It compared the move's impact to a financial modification cherish concerning about two percentage points.

The paper, that has not been peer reviewed, aforementioned that India's economic activity declined three percent points or additional in November and December 2016 although its effects were dispelled over the next few months. It conjointly noted a number of the attainable longer-term edges of the live that saw 86% of the currency notes in circulation being withdrawn.

"It was all over that whereas the cashless limit might fittingly describe economies with well-developed money markets, in fashionable India money continues to serve a vital role in facilitating economic activity," said the paper authored by Gabriel Chodorow-Reich, Gita Gopinath, both of the department of economics at Harvard University, Prachi Mishra, managing director, global macro research, at Goldman Sachs, Mumbai, and Abhinav Narayanan of the Reserve Bank of India.

"There may be longer-term advantages from demonetisation that arise from improvements in tax collections and in a shift to savings in financial instruments and non-cash payment mechanisms," it said, but added that more research was needed.

Citing alternative studies, the paper compared the magnitude of the peak effect on output of the note ban to a roughly 200 basis point tightening of the monetary policy rate. One basis purpose is one hundredth of a decimal point. India's gross domestic product (GDP) grew 6.8% in the December quarter of 2016, down from 7.6% in the trailing three months. In the subsequent quarter, it declined to 6.1%.

INNOVATIVE METHODS

The authors searched for innovative ways of deciding economic activity, as well as satellite pictures of lights in the dead of night, particularly within the informal sector. "The cross-sectional responses cumulate to a contraction in employment and nightlights-based output due to demonetization of 2 percentage points and of bank credit of 2 percentage points in 2016Q4 relative to their counterfactual paths," said the paper. Moreover, it explained that the decline in output can "not clearly occur within the national GDP Knowledge" as national data are volatile and subject to different shocks, making it difficult to pick out one break principle around demonetization.

The study used a "new household survey of employment" and "satellite data on human-generated nightlight activity" besides a number of other datasets to measure the effects of demonetisation at the district level. In the initial few months, demonetization affected basically all areas of India however with varied intensity, that conjointly relied on however quickly replacement notes reached. "If trend growth in India was 1.5% per quarter (6% per year), then our estimates imply an absolute decline in economic activity of regarding 0.5% in 2016 Q4 from the previous quarter," according to a footnote. "This follows from the 3% decline in November and December and no impact in the pre-demonetisation month of October."

While the year 2019 can bring with it formation of a recent Government when the elections in April 2019, when effects of Demonetization that happened in Greogrian calendar November 8, 2016 still haunt the Indian Economy. After quite than 2 years of completion of Demonetization, Indian Economic Survey claims that the economy has done away with all the negative impacts of Demonetization. However, economic experts are of the view that the economy is still crying for a faster growth and little objective has been achieved by the demonetization conclusion.

DEMONETIZATION: STILL HAUNTS INDIAN ECONOMY

The Demonetization was proclaimed as a surprise within the night on November 8, 2016. The Economic Survey of India that was free simply before the presentation of General Budget 2018 in Parliament stressed that everyone the negative impact of Demonetization of Rs.500/- and Rs.1000/- currency notes has ended. However, the analysis in India and abroad has claimed that demonetization of November 2016 has didnt to do what it absolutely was spectaculated to do and its impact has turned out to be more protracted than initially expected.

Experts think that even from the point of view of promoting digital money, there was no need for the government to have put 86 per cent of all currency out of circulation. Studies have noted that little black cash was caught. On August 30, 2017, the RBI released its report on Demonetisation. The report said 99 per cent of the banned notes came back into the banking system. This belies the Government claims that the Demonetization would flush out the black money and counterfeit currency. Claiming the Demonetization as a wrong decision, as 99 per cent currency is back in the system, it points to one of the two things -

Either the black cash held in cash was terribly low, or the government could not implement the demonetization efficiently due to which all the black cash command in Rs. 500 and Rs. 1000 bank notes laundered back to the banking system.

DEMONETIZATION: POSITIVE IMPACTS ON INDIAN ECONOMY CLAIMED

Economic Survey once careful review of Demonetization that was proclaimed one and a half year back, has found that the cash-to-GDP quantitative relation has stabled. It suggests a return to equilibrium:

The Economic Survey says that India's GDP is set to grow at 7 to 7.5 percent in 2018-19. This is a rise from its prediction of 6.75 percent growth this fiscal year.

The Economic Survey has cited exports and imports knowledge to asset that the demonetization effect was currently over. It claims that re-acceleration of export growth to 13.6 percent in the third quarter of Financial Year 2018 and deceleration of import growth to 13.1 percent is in line with global trends. This suggests that the ending and GST effects area unit receding. Services export and private remittances are also rebounding.

According to the statistics free within the Survey, the Demonetization had lead to Rs 2.8 lakh crores less money (Equivalent to 1.8% of GDP) and Rs 3.8 lakh crores less high denomination notes (Equivalent to 2.5% of GDP) in the Indian economy.

The Economic Survey has conjointly processed that income tax collections have touched new high with demonetization and introduction of GST, "From concerning 2 percent of GDP between 2013-14 and 2015-16, they are probable to rise to 2.3 percent of Gross Domestic Product in 2017-18, a historic high."

DEMONETIZATION: BACK GROUND AND KEY FACTS

On November 8, 2016, the Prime Minister of India, Narendra Modi Declared the Demonetization of all Rs.500 and Rs. 1,000 denomination bank notes of the Mahatma Gandhi Series. The demonetization announcement created the employment of Rs.500 and Rs.1000 banknotes invalid pastime of Day November 8. It was conjointly declared that the new Rs.500 and Rs.2000 banknotes of the Mahatma Gandhi new series would be introduced in exchange for the old banknotes. The objective of demonetization as claimed by Government of India was to curtail the black money running as shadow economy and to prevent the utilize of counterfeit cash to fund illegal activity and terrorism. The abrupt nature of the announcement—and the prolonged cash shortages within the weeks that followed—created vital disruption throughout the economy, threatening economic output. The demonetization move was heavily criticized as poorly planned and unfair, and was met with protests, litigation, and strikes.

The announcement was sudden and unscheduled. It was a live TV address at 8.00 PM on November 8, 2016. In the days following the demonetization, the country face severe money shortages with severe harmful effects across the economy. People seeking to exchange their bank notes had to stand in lengthy queues, and several deaths were linked to the inconveniences caused due to the rush to exchange cash. As the money shortages grew within the weeks following the move, the demonetization was heavily criticised by outstanding economists and by world media.

MERITS OF DEMONETIZATION FAVOURED INDIA'S ECONOMIC GROWTH

Demonetization policy of the Govt. has been termed since the greatest monetary reform that aimed to control the black money, corruption and counterfeit currency notes. All the people that don't seem to be concerned malpractices welcome the demonetization the right move. Demonetization was done to aid India to become corruption-free since it will be complicated at the present to keep the unaccounted money.

Demonetization will facilitate the government to trace the black money and also the unaccounted money will now run no more and the amount collected by means of tax can be better utilised for the general public welfare and development schemes. One of the most important achievements of demonetization has been seen within the severe curb of terrorist activities so that it has stopped the funding to the terrorism which used to get an improvement due to inflow of unaccounted money and counterfeit currency in a huge volume. Money laundering can eventually come back to halt while the activity can easily be tracked and the money can be seized by the authorities.

Demonetization aimed to stop the running of parallel economy due to circulation of fake currency as the banning of Rs.500 and Rs. 1000 notes will eliminate their circulation. The unaccounted money may be deposited within the Pradhan Mantri Garib Kalyan Yojana later than paying 50% tax. The money will be deposited for 4 years with the bank without incurring any interest. On the other hand, after 4 years the total amount will be returned. This quantity will be utilized for social welfare schemes and making better the life of low income group people.

The Public Sector Banks that were reeling below deposit crunch and were running the short of funds have suddenly swelled with set of money which may be used for future finances and loans when keeping a assured amount of reserve as per RBI guidelines. The people who opened the Jan Dhan accounts will now use their accounts and become familiar with banking activity. The money deposited in these accounts was used for the enhancement action of the country.

The taxes collected because of launch of demonetization policy are to be placed for the developmental activities in the country. Demonetization has driven the nation towards a cashless culture. Lakhs of the individual people even in remote rural areas have started resorting to use the cashless transactions. The move has promoted banking activities. Now even a small transaction have started going through banking channels and the small savings have started into a huge national asset. The high rising value pattern and inflationary trends that the Indian economy was facing are taking a down flip creating the living promising within the low income group to reach.

DEMERITS THAT BLOW TO ECONOMIC GROWTH AND INCONVENIENCE ALL AROUND

The awful next day of after announcing the demonetization, the BSE and NIFTY stock indices fell over to 6%. The severe money shortages brought detrimental impact on the economy. People trying to exchange their bank notes had to stand in lengthy queues causing many deaths due to inconvenience and rush. The unexpected announcement has created adverse impact on business and economy. Instead of a growing economy India has become a standstill and no growth economy. It is feared that a fall of 2-3% in the GDP growth will be recorded coming year.

India is an agriculture based economy. Due to the money crisis, the farmers especially small and marginal who largely depend on cash to buy seeds, fertilizers and to pay for sowing, borrowing water for irrigation and for other related agriculture equipments remained worst affected and would not get the complete the crop related activity.

Since little branches of the banks were furthermore not equipped with adequate money within the time of sowing season of the crop, farmers couldn't get their crop loans disbursed. This added to the woes of the farmers result to a weak agriculture production the approaching year. Real Estate business came to a standstill and is still puffing for buyers of the constructed and half constructed account without buyers. This has resulted in poor income resulting to a poor demand.

Demonetization has made the situation become chaotic. Tempers are running elevated among the masses as there is a setback in the circulation of new currency. Due to the lack to pay cash to poor daily wage workers, the small employers have stopped their commercial activity.

The poor arrangement on the part of the government has moreover additional to the woes of the common public with low incomes. The Rs.2000 currency note does not find many takers as it is difficult to get the balance back when you are buying daily needs like vegetables, milk, bread or paying for petty expenses like bus fare. While rs.100 currency notes were not available in sufficient number, Rs.500 note arrived in the market very late.

Demonetization is that 2 way sword in reference to acquisition of the public expenditure. On the one hand huge cost is to be incurred on printing the new currency and on other hand managing the lakhs of crores of old currency volume has also become a big disbursement incurring item. Many Economists are of the vision that Rs.2000 currency note will be greatly easier to hide and can be used to store as black money in shorter space. Entire opposition has stood against demonetization and has described this decision a draconian law.

DEMONETIZATION: SUCCESS POINTS

India has marched on the path of digital operations at a faster speed. Key spots describing success of demonetization are:

RATE OF INFLATION GOES DOWN

Prices of normally consuming commodities like Pulses, fruits, vegetables had gone down considerably post demonetization. Accordingly it brought down the pace of inflation throughout the months that followed demonetization. The graph below represents the impact of demonization on the commodities. However, the outline of Demonetization now seems to be vanishing in reality sector. The prevailing attractive home loan rates, flexible payment plans and other attractive offers by developers, coupled with restricted new supply addition, has led to a steady decline in the unsold inventory.

As of the third quarter of 2017, only 6,38,500 units remained unsold within the top-6 cities, registering a 9% decline from fourth quarter of 2016 levels. The demand for affordable and mid-segment housing has been on a rise.

Initiatives like interest waivers on home loans, the government's push for reasonable housing through Pradhan Mantri Awas Yojana (PMAY) and also the 'Housing for all by 2022' mission have return to the forefront over the past one year. Various policy initiatives, amendments and reforms were all aimed toward creating the real estate sector more crystal clear, organised and essentially stronger. Demonetisation played a significant role in this process.

In the long term, the real estate sector is likely to regain a faster growth trajectory and is estimated to contribute around 13 per cent to India's gross domestic product by 2028. This optimistic forecast is incredibly abundant because the a variety of reforms at present redefining the realty scenery in India will not only incrementally boost customer sentiment but also additionally improve investment inflows from foreign and domestic institutional investors.

The Finance Minister Arun Jaitley on November 7, 2017 came out with a spirited defence of demonetisation announcement on November 8, 2016 calling it a "watershed moment for the Indian economy". According to him the demonetization has not solely modified the agenda however also made corruption tricky. Thus, in his opinion, it absolutely a "morally and ethically correct" step but also "politically correct".

SOME ASPECTS TO KNOW THE EFFECTIVENESS OF DEMONETIZATION

1. Why India demonetized only 500 and 1000 currency notes.

According to RBI's Report the 500 rupees and 1000 rupees notes approximately 86 % value in the circulation. So government decides to remove this huge amount of money from the market. And the maximum Fake currency notes exist in the form of 500 and 1000.

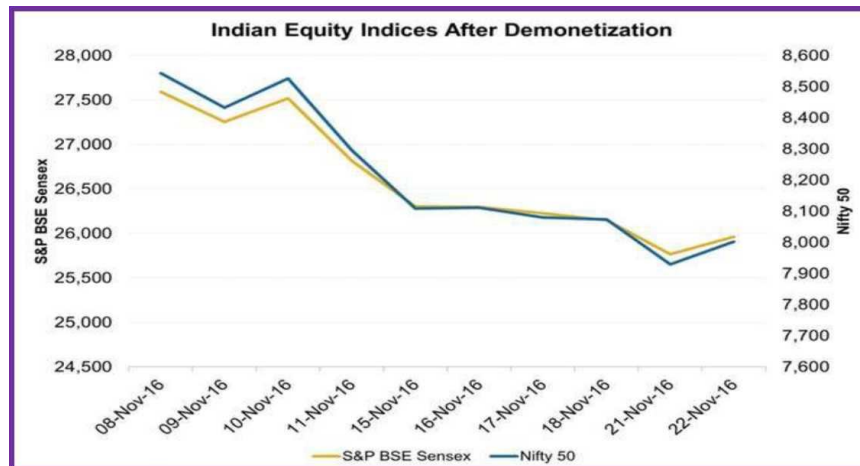
2. Impact of demonetization on Indian economy.

The demonetization somehow reduced consumption activity in economy of India. But it increased the money in banks. At the time of demonetization the consumption had reduced and the

market become slowdown, but the increase in the deposition in the bank would be better for economy in future. After demonetization announcement deposition in Indian bank has increased, According to reserve bank India, deposits crossed 5 trillion rupees from 10th November to 18th November. Due to this many banks like SBI, ICICI, HDFC PNB reduced their deposits rates.

IMPACT OF DEMONETIZATION ON INDIAN FINANCIAL MARKET

After demonetization Indian financial market has been followed just like secular falling trend. Nifty 50 fell approx 6.3% and S&P BSE Sensex Fell 5.9% from 8 November to 22 November.



Impact of demonetization on next financial year (Source: Hindustan times, 02-02-2017 issue). According to Mr. Pranab Sen (India's First Chief Statistician) said that, the targeted economic growth rates about 7.5% presented by Indian government for upcoming financial year is over optimistic. He said that the decision about ban on currency note has adversely affected the industrial sector. It affected the IT sector which is 45% of the India's Gross Domestic Product, and approximately 80% of India's employment depends upon IT sector.

Impact of higher value Currency ban on Auto Assets Backed Loan (Source: Business standard, 13-02-2017 issue) According to Moddy's investor service demonetization has negatively impacted on Indian auto-assets backed loans in the short term and this will continue till the March end.

IMPACT OF DEMONETIZATION ON REAL ESTATE

During November-December 2016, the monthly average housing sales fell about 40% in the top nine cities like Gurgaon, Ahmedabad, Kolkata, Chennai, Hyderabad, Bengaluru, Pune, Mumbai and Noida. Before demonetization it was shown clear that the monthly average house sold was 19000 units in July month and 18000 units in October month.

The monthly average sales were reduced drastically during November-December months by 40% and 49% respectively.

The government has declared the demonetization move on November 8, raising hopes of sharp fall in prices in property market, especially secondary or resale segment. Starting of third quarter, October month showing best performance, but November and December both negatively impacted by the demonetisation, 50% of the total sales in the third quarter contributed by October month.

The real estate developers were focusing their efforts to attract customers by offering additional free benefits like jewellery, electronic items, automobiles, holiday package and appliances on the purchase of housing units.

Builders also offered the price guarantee, rental assurance, and buyback schemes to bring confidence in the sector of demonetization on FMCG

Impact industry (Economic times 24 dec. 2016) FMCC industry had gone down by 1-1.5% or Rs 3,840 crore in November, compared to October. The purchase in November had gone down by 6.4% compared to October.

Purchase of personal care items such as toilet soaps, toothpaste and shampoo had seen the greatest fall by retailers. According to consumer point of view, one out of five housewives had reduced spending by 50% or more. They had cut spends across categories for impulse categories such as biscuits, salty snacks compared to everyday essentials like atta, rice, pulse, sugar.

Demonetization will help to fight with black money and reduce corruption.

According to Adi Godrej demonetization may had considerable negative effect at the earlier stage but after some days the situation had improved and it will have a positive impact on the economy. The Chairman of the Godrej group also said that it would help to fight with black money and it will also reduce corruption.

He further said there is a fair amount of cash has come into the economy and more is being coming regularly basis, and this is good sign for the economy.

POSITIVE EFFECTS OF DEMONETIZATION

According to Fitch Rating the positive effects of demonetization of Rs 500 and 1,000 denominations are unlikely to be of long run nature to support banks' credit profile. The rating agency which rediscovered its negative attitude on the Indian banking sector. The demonetization constrain has the possible to raise government revenue and encourage bank lending. The demonetization move might boost government income to the extent that helps to move economic activity from the informal to the formal sector. The positive impact on funding conditions can rely on deposits remaining in banks further than the next few months, and there is nothing to stop them being withdrawn yet again.

CONCLUSION

Demonetization in India could be a nice effort taken by Indian government to battle with black money and corruption. It is a bold decision taken by government. The main purpose of demonetization is eradicating the black money and reducing the corruption. The Government of India has become success to some degree. Most of the black money has been crushed. Amount of cash liquidity increased in the bank day by day. And anybody knows if the bank has more deposits then bank become stronger. The country in which bank is strong then that county is more financially strong. In future banks will able to do more and more loans to the individual and to the industrial sectors sot that production will grow in our country, employment will be generate, and our country can develop at very fast rate. But this is only future perfections; upcoming few months will show the actual economic condition of our country.

Although Demonetization has created so many obstacles for the Indian citizen. Citizens of India faced a lot of issues because of demonetization drive; they faced queue issues within the banks and ATM'S for depositing and retreating money. Citizens of India faced problem of less consumption of goods due to the lack of cash liquidity. Several businesses disrupted due the lack of liquidity, business owners as well as consumer faced so many problems. When the government of India has taken this courageous decision about the demonetization in India, government didn't know that Indian citizen will have to face this kind of problem for a long time. But government has given so many remedies to the citizens of India for time to time.

Meanwhile, Indian financial market, real estate market, FMCG Sector, Auto assets backed loans etc. all are refused for a short time. Some economics expert said that positive impact of demonetization will showed in future. Government has also increased the withdrawal limits. The queues in front of banks and ATMs have reduced. Somehow black money also comes out. Now we are supposed to wait and watch the largely the impact of demonetization drive.

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