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AFTERMATH OF DEMONETIZATION QUAKE : BOON OR CURSE

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ABSTRACT:

On 08.11.2016 the Indian economy experienced tremors with the announcement of demonetization by Hon'ble Prime Minister Shri Narendra Modi. This had varied impact on the Indian economy in all sectors. The main reason to implement such a big step was to curb the "Black Money", "Cross border Terrorism" and control "corruption". India had amongst the highest level of currency in circulation before Demonetization took place. Of the cash on hand about 87% was in the form of Rs 500 and Rs 1000 which got demonetized from 09.11.2016 which might have resulted into bringing the money back into circulation or just ended as a scrap piece of paper. The intended effect of all the above measures will lead to reduction of corruption and black money leading to improved situation of Ease of doing business. Already this has been indicated by upgrading of the rating of the MOODY's. A few experts even believe that post demonetization, the issues of black money, corruption and terrorism may arise again. The present paper highlights demonetization's impact on the economy, the target areas of demonetization, broadening the tax base – both the number of assesses and total tax revenue to exchequer and promotion towards cashless economy and digital banking. Now time will only justify whether the step of demonetization has been a boon or curse.



KEYWORDS: Demonetization, Reasons and Impact of Demonetization, Tax Revenue, and Digital and Cashless Economy.

INTRODUCTION:

Demonetization is the act of stripping a currency unit of its legal tender, i.e. the currency note loses its financial value with effect from the declaration of demonetization. It is a liquidity shock; a sudden stop in terms of availability of the currency notes. In India, this was the third time that demonetization took place, one was in 1946 then in 1978 and

now in 2016. On 08.11.2016 our Hon'ble Prime Minister Shri Narendra Modi announced demonetization which was to be effected from 09.11.2016. This caused havoc among the citizens as suddenly about 86% of currency value in circulation in form of Rs 500 and Rs 1000 was stripped off of its legal value. A new currency note was issued i.e. of Rs 2000. The Rs 2000 currency note had effectively

less utility as after Rs 100 it was the only high currency note available. This huge gap in the currency value made it less useful and forced people to move towards plastic money.

OBJECTIVES OF PAPER

- Impact of demonetization on the Indian economy.
- Achievements of the reasons for which the demonetization step was

initiated.

- Broadening the tax base in form of number of tax payers as well as revenue to the exchequers.
- Promotion of cashless economy and digitalization.
- Whether this step of demonetization will end as a boon or curse?

RESEARCH METHODOLOGY

The data used in the paper is collected from various sources on internet, digital newsletter of the Government of India, MOODYs status report and various articles in newspapers. The paper is prepared and based on secondary data.

IMPACT OF DEMONETIZATION

Demonetization cannot be termed as a big disaster but it acted as a liquidity shock that disturbed the economic activities. Demonetization is a situation wherein there is currency crisis, lack of investments, hardship in carrying out daily business operations. Such situations have short term/long term implications, growth is impacted, and many more changes in the economy ecosphere. The intensity of demonetization effect depends on the duration of the liquidity crisis. It was an apparent fact that each and every citizen of the nation was affected.

POSITIVE IMPACTS OF DEMONETIZATION

“There comes a time in the history of a country’s development when a need is felt for a strong and decisive step. For years, this country has felt that corruption, black money, and terrorism are festering sores, holding us back in the race towards development” said our Hon’ble Prime Minister on 08.11.2016. Demonetization which is termed as the mother of all reforms had far reaching impact. This cannot be denied that this step brought hardship for citizens, which was temporary in nature. Many citizens contributed in such policy making and nation building by bearing such hiccups with a good hope and trust for a better tomorrow.

THE MANIFOLD IMPACTS OF DEMONETIZATION ARE:

1. Eradication of Black Money from the economy:

Demonetization is a deep psychological strike on the Black Money Market. With this decision all channels of black money were choked over night. Post demonetization the cash deposited brought into the system large amount of unaccounted cash which was a part of the black economy running parallel to the main economy. About 17.73 lakh suspicious cases were identified which did not match the tax profile they actually held. With the step of demonetization the black money holders were identified and their money was deposited into bank account resulting into heavy penalties by the authorities or simply be destroyed as a scrap piece of paper.

2. Terrorist Financing:

Terrorism is financed through the black market prevalent in the nation. Financing is done through counterfeit currency and hawala transactions. With demonetization all windows and doors for financing of terrorist activities were closed. This drastically brought down the terrorist activities in the state of Kashmir and other parts of nation. According a study, stone pelting activities in the state of Kashmir was reduced drastically from 2683 (in November 2015 - October 2016) to only 639 (in November 2016 – July 2017). It can rightly be said that all the “stone pelting separatists” were made to shut their activities by a single stone pelted by Shri Narendra Modi in form of Demonetization.

3. Formalization of the Economy:

With demonetization the parallel illegal black economy which was functioning came to an end. The monies from this economy were brought into legal circulation. This helped in turning around the face of the Indian Economy.

4. Reduction in Maoist Activities:

The demonetization has hit the Maoists along with the terrorists. The main source of funds for the Maoists was the black money in the economy and the counterfeit currency notes. With implementation of demonetization this funding was suddenly choked up leaving them with little money. According to the Police sources about more than 10000 crores of high denomination notes were dumped in the dense jungles of Chhattisgarh-Odisha border. Also post demonetizations the Maoists are facing huge problems and this has resulted in steep fall in the Maoist activities. Due to this the states of Odisha, Chhattisgarh, Andhra Pradesh and Telangana are experiencing a peaceful life.

5. Formalizing Employment Sector:

Demonetization led to generation of formal jobs for the poor in the nation. The poor people were granted their rights by amending the Payment of Wages Act, by making direct payment to the employee's bank account. This resulted in opening of about 50 lakh new bank accounts. Over a crore employees are now enrolled with the EPFO and ESIC guaranteeing them their rights along with a social security and health benefits. These steps brought in transparency and accountability which assured people of the efforts taken.

6. Steep Decline in real Estate Prices:

It is believed that the Real estate sector is built on the black economy. Post Demonetization a steep decline was observed in the real estate prices. Unaccounted transactions and corruption was prevalent in this sector. A sudden stop was a big blow to them. Demonetization has brought in transparent and accountable system making it tricky and difficult to invest unaccounted funds. The reduction in prices was a boon for the middle class people as their dream to own a house was now possible. Home buyers got a three way benefit – price decrease, interest subvention under Pradhan Mantri Awas Yojana (PMAY) and decrease in EMIs.

7. Decline in Lending rates:

Post Demonetization, it can be noted that there was a fall in the lending rates. Surplus liquidity had been a helping hand to facilitate transmission of monetary policy to market interest rates. The interest rates have notably reduced on home, auto and education loans rendering an assurance of affordable creditability. This ended up in considerable improvement in standard of living. This paved a path towards moderate inflation with sustained growth ending up with relief for the common man.

8. Digitalization:

The nation has moved towards the dream of digital India with an increase of 58.8% in digital transactions in 2018-19. It is estimated by RBI that the digital transactions will raise four times by 2021. The usage of Debit Cards and mobile wallet has increased exponentially. With this shift towards Digital Banking the Indian Economy has moved towards "Cashless Economy".

9. Revenue to the Exchequer:

With effect from demonetization the people in possession with unaccounted monies were left with only three alternatives – either deposit the money in the bank accounts with the consequent penalty and tax under section 271AAB and Section 115BBE respectively; or disclose the unaccounted cash under the Pradhan Mantri Garib Kalyan Yojana 2016 (PMGKY); or the high denomination notes are left as a scrap piece of paper. The transactions made by various people in various bank accounts and other Financial Institutions were keenly observed and reported. The accounts with suspicious transactions were identified. Where the amount deposited did not match the tax profile of the person, such person was penalized accordingly. This led to big source of revenue for the tax authorities as many tax payers were brought into the tax bracket and were made to pay actual tax on the unaccounted income. The tax authorities had an estimate target of about Rs 3 Lakh Crores of recovery of tax from this step. The section 115BBE was amended retrospectively with effect from 01.04.2016 to tax such

unaccounted income deposited at the rate of 60% along with surcharge of 25% and cess of 2% + 1%. The penalty levyable is at 10% of 60%. An "Operation Clean Money" was initiated by the I-T Department in January 2017 to identify cases whose income did not match with the income already offered in previous years.

10. Rating of MOODY for the Indian Economy:

The following analysis represents the rating done by the MOODY's were in the ranking was revised for India post Demonetization which indicates a good result of the quaking tool of demonetization-

Rating Moody's India

Long Term Rating				Short Term Rating			
Foreign Currency		Local Currency		Foreign Currency		Local Currency	
Date	Rating (Outlook)	Date	Rating	Date	Rating	Date	Rating
2017-11-16	Baa2 (Stable)	2017-11-16	Baa2			2017-11-16	P-2
2016-11-16	Baa3 (Positive)	2016-11-16	Baa3			2016-11-16	P-3
2015-04-09	Baa3 (Positive)	2015-04-09	Baa3			2015-04-09	P-3
2011-12-20	(Stable)	2011-12-20	Baa3			2011-12-20	P-3
2009-12-15	(Stable)	2010-07-26	Ba1			1998-06-19	NP

Here the meanings of the ratings are:

Baa2 – Low Medium Grade (Stable)

Baa3 – Low Medium Grade (Positive)

P-2 – Lower Medium Grade

P-3 – Non- investment Grade speculative

ISSUES AND CHALLENGES DUE TO DEMONETIZATION:

Every coin has two sides similarly every decision has two fold effects. There were certain issues which rose up due to the decision of demonetization. There were unintended effects on the poorer, less educated, unbanked, rural, cash economy dependant people who were queuing up to salvage their meager savings.

THE MAJOR ISSUES FACED BY THE NATION WERE:

1. Liquidity Crunch:

Post Demonetization the problem of shortage of liquidity was faced by most of the citizens which was a result of liquidity crunch prevalent at that time. But as the cyclone subsides the waves also calm down. Similarly the chaos caused due to the liquidity crunch has now subsided over a period of time.

2. Effects on Consumption Patterns:

With the fall in liquidity, the consumption has been affected adversely. The consumers were spending less which affected the consumption rate, which in turn reduced the production resulting into decline in employment rate and finally affecting the growth rate. But over a period of time this effect has been overcome and the consumption is being normal and finally has started resulting into a steady growth. The GDP was 7% in Quarter 3 of 2016-17 where as it is 6.2 % for 2019.

3. Downfall in Bank Deposit Rates:

On one hand the RBI policy is continuously revising the bank and interest rates downwards; the abundance of deposit in the banks has added fuel to the fire. The common man more particularly the senior citizens are adversely affected as their main source of income comes from Bank deposits. Government is finding it difficult to regulate inflation and the bank rate.

4. Hardship in carrying out Business for Small Business men:

Majority of deals in wholesale market of agriculture produce are settled in cash. This does not comprise of the black money. These people are not acquainted to the electronic system of transacting. This caused a hardship in carrying out their regular business. Many small businessmen lost their business (temporarily) due to demonetization. There is always a difference in losing business due to competitive factors and due to structural changes introduced.

5. Technology issues:

The demonetization had laid an emphasis on the cashless economy. But it did not take into consideration that rural parts of India are still not well equipped with the technological infrastructure. Many people in India do not have smart phones to transact online nor do they have the knowledge about the same. This needs to be addressed as early as possible to boost the economy.

CONCLUSION

The effort to put an end to the counterfeiting of the high denomination notes allegedly used for funding terrorism, and a breakthrough in the black market the tool of demonetization was used by our Hon'ble Prime Minister on 08.11.2016. This was a very big quake for the Indian Economy which shattered many situations and turned around the picture of our Economy. Demonetization seeks to have a sharp, sudden but a steady and long lasting change that encouraged the digital economy. Demonetization led to many short term and long term advantages and disadvantages. It has been the first step towards the dream of 'Digital India'. This big step had been opposed by many but slowly and gradually as the time has passed the fruits of the same have started to ripe. Now time only will decide whether this quake was a boon or a curse for the Indian Economy and the common man.

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