

Impact of Demonetisation on Indian Economy

Pooja Ravish*

M.Com., N.E.T.

Abstract – Demonetization means Withdrawal of a particular form of currency from circulation. The reasons of demonetization are tackle black money, eliminate fake currency, control on corruption etc. In demonetization 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. The paper discussed impact of demonetization on key factors like General people, Stock market, Transportation, Agriculture, Banking, Business, Income tax, Insurgent groups, Railways , Jewelers etc.

Keywords: Demonetization, Black Money, Insurgent Groups and etc.

-----X-----

INTRODUCTION

Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit. In short Demonetisation means Withdrawal of a particular form of currency (such a gold coins) from circulation. The sudden move to demonetize Rs 500 and Rs 1,000 currency notes is not new. Rs 1,000 and higher denomination notes were first demonetized 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 demonetized 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 demonetized in January 1978. The Rs 1,000 note made a comeback in November 2000. Rs 500 note came into circulation in October 1987. The move was then justified as attempt to contain the volume of banknotes in circulation due to inflation. 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 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.

In a major step to check undeclared black money, the Government of India on the 8 November 2016 announced demonetisation of Rs 500 and Rs1000 banknotes with effect from the same day's midnight, making these notes invalid. Apart from combating black money, the stated purpose is , - also to check fake currency (used to finance terrorism) and corruption. A new redesigned series of Rs500 banknote, in addition to a new denomination of Rs 2000 banknote is in circulation since 10November 2016. The new redesigned series is also expected to be introduced to the bank note denominations of Rs1000, Rs100 and Rs50 in the coming months.

The current demonetisation reasons given by government are as follows-

1. To tackle black money in the economy.
2. To lower the cash circulation in the country this is directly related to corruption in our country.
3. To eliminate fake currency and dodgy funds which have been used by terror groups to fund terrorism in India.
4. The move is estimated to scoop out more than Rs S lakh crore black money from the economy.

DETAILED STUDY

There are many sectors affected by demonetisation. Some key sectors affected by demonetisation on Indian economy are as follows:-

1. General people:-

The scarcity of cash due to demonetisation led to chaos, and most people holding old banknotes faced difficulties exchanging them due to endless lines outside banks and ATMs across India, which became a daily routine for millions of people waiting to deposit or exchange the ₹500 and ₹1000 banknotes since 9 November, ATMs were running out of cash after a few hours of being functional, and around half the ATMs in the country were non-functional. Sporadic violence was reported in India, people attacked bank premises and ATMs, several people were reported to have died from standing in queues for hours to exchange their old banknotes.

2. Stock market :-

As a combined effect of demonetisation and US presidential election, the stock market indices dropped to an around six-month low in the week following the announcement. The day after the demonetisation announcement, BSE SENSEX crashed nearly 1,689 points and NIFTY 50 plunged by over 541 point. By the end of the intraday trading session on 15 November 2016, the BSE SENSEX index was lower by 565 points and the NIFTY 50 index was below 8100 intraday.

3. Transportation :-

After the demonetisation was announced, about 800,000 truck drivers were affected with scarcity of cash, with around 400,000 trucks stranded at major highways across India were reported. While major highway toll junctions on the Gujarat and Delhi-Mumbai highways also saw long queues as toll plaza operators refused the old banknotes.

4. Agriculture :-

Transactions in the Indian agriculture sector are heavily dependent on cash and were adversely affected by the demonetisation of ₹500 and ₹1000 banknotes. Due to scarcity of the new banknotes, many farmers have insufficient cash to purchase seeds, fertilisers and pesticides needed for the plantation of crops usually sown around mid-November. Farmers and their unions conducted protest rallies in Gujarat. Amritsar and Muzaffarnagar against the demonetisation as well as against restrictions imposed by the Reserve Bank of India on Ellstrictpen,es2lltraulstiv - which were ordered not to accept or exchange the demonetised banknotes.

5. Banking :-

In the first four days after the announcement of the step, about ₹3 trillion (US\$45 billion) in the form of old ₹500 and ₹1,000 banknotes had been deposited in the banking system and about ₹500 billion (US\$7.4 billion) had been dispensed via withdrawals from bank accounts, ATMs as well as exchanges over the bank counters. Within these four days, the banking system has handled about 180 million transactions. The State Bank of India reported to have received more than ₹300 billion (US\$4.5 billion) in bank deposit in first two days after demonetisation. A spike in the usage of debit card and credit card post demonetisation was also reported. Between November 10 and November 27, banks reported exchange and deposits of demonetized banknotes worth ₹8.45 trillion (US\$130 billion) (exchange of ₹339.48 billion (US\$5.0 billion) and deposits of ₹120 billion (US\$120 billion)). During this period, an amount of ₹2.16 lakh crore (US\$32 billion) had been withdrawn by people from their accounts.

6. Business :-

By the second week after demonetisation of ₹500 and ₹1,000 banknotes, cigarette sales across India witnessed a fall of 30-40%, while E-commerce companies saw up to a 30% decline in cash on delivery (COD) orders. Several e-commerce companies hailed the demonetisation decision as an impetus to an increase in digital payments. They believe that it would lead to a decline in COD returns which is expected to cut down their costs. The demand for point of sales (POS) or card swipe machines has increased. E-payment options like PayTM and PayUMoney has also seen a rise. According to data of Pine Labs, the demand for its POS machines doubled after the decision. Further it states that the debit card transactions rose by 108% and credit card transactions by 60% on 9 November 2016.

7. Income tax raids and cash seizures:-

The Finance Ministry instructed all revenue intelligence agencies to join the crackdown on forex traders, hawala operators and jewellers besides tracking movement of demonetised currency notes. Income Tax departments raided various illegal tax-evasive businesses in Delhi, Mumbai, Chandigarh, Ludhiana and other cities that traded with demonetised currency. The Enforcement Directorate issued several FEMA notices to forex and gold traders. Large sum of cash in defunct notes were seized in different parts of the country. In Chhattisgarh liquid cash worth of million (US\$65,000) was seized.

8. Insurgent groups:-

The move also reportedly crippled Communist guerrilla groups (Naxalites) financing through

money laundering. On 10 November the police arrested a petrol pump owner at Ranchi when he reportedly tried to deposit X2.5 billion, belonging to a person affiliated with the banned Communist Party of India (Maoist). According to Chhattisgarh Police demonetisation has affected the Naxalite activities. It is reported that insurgents have stashed more than X70 billion in the Bastar region. Mumbai Police reported a setback to Hawala operations. Hawala dealers in Kerala were also affected. The Lammu and Kashmir Police reported the effect of demonetisation on hawala transactions of separatists. While Manohar Parrikar claimed that the move has also helped in reducing the incidents of stone-pelting in valley, his claim has been disputed. More than 300 Naxals have surrendered to the police voluntarily due to shortage of funds.

9. Railways:-

As of November 2015, Indian Railways did not have the option to make payment with cards at the counters. After the demonetisation move, the government announced to make card payment options available at railway counters in the country. As soon as the demonetisation was announced, it was observed by the Indian Railways authorities that a large number of people started hooking tickets particularly in classes 1A and 2A for the longest distance possible, to get rid of unaccounted cash. A senior official said, "On November 13, 42.7 million passengers were nationally booked across all classes. Of these, only 1,209 were 1A and 16,999 for 2A. It is a sharp dip from the number of passengers booked on November 9, when 27,237 passengers had booked tickets in 1A and 69,950 in 2A. Railways Ministry and the Railway Board responded swiftly and decided that cancellation and refund of tickets of value X10,000 and above will not be allowed by any means involving cash. The payment can only be through cheque/electronic payment. Tickets above T10,000 can be refunded by filing ticket deposit receipt only on surrendering the original ticket. A copy of the PAN card must be submitted for any cash transaction above k50,000. The railway claimed that since the Railway Board on 10 November imposed a number of restrictions to book and cancel tickets, the number of people booking 1A and 2A tickets came down.

10. Jewellers:-

A jewellery store in a shopping mall with a notice "We accept k500 and X1000 notes", even after they were no longer valid banknotes. In Gujarat, Delhi and many other major cities, sales of gold increased on 9 November, with an increased 20 to 30% premium surging the price as much as k45,000 (US\$670) from the ruling price of k31,900 (US\$470) per 10 grams.

CONCLUSION

Demonetisation as a clearing 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.

REFERENCES

1. <http://economictimesindiatimes.com/news/economy/policy/what-is-demonetisation-and-why-was-it-done/articleshow/55326862.cms>
2. <http://www.businessdictionary.com/definition/demonetization.html>
3. https://en.wikipedia.org/wiki/Indian_500_and_1000_rupee_note_demonetisation
4. <http://www.investopedia.com/terms/d/demonetization.asp>
5. <http://www.indianeconomy.net/splclassroom/309/what-are-the-impacts-of-demonetisation-on-indian-economy/>
6. <http://businessworld.in/article/Impact-Of-Demonetisation-On-India-s-Economy/21-12-2016-110099/>
7. <http://www.forbes.com/sites/timworstall/2016/11/19/effects-of-demonetisation-on-indias-gdp-difficult-to-calculate-we-dont-even-know-the-sign/#5e84ed044a1a>
8. <http://economictimes.indiatimes.com/news/company/corporate-trends/demonetisation-to-impact-economy-in-short-term-india-inc/articleshow/55640155.cms>

Corresponding Author

Pooja Ravish*

M.Com., N.E.T.

poojaravish19@gmail.com