

Demonetisation in India: Its Success and Failure

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Abstract: The government of India took a bold decision of demonetization on 8/11/2016 i.e. the government announced that on the stroke of midnight all Rs. 500/- and Rs. 1000/- banknotes would cease to be legal tender in India. with sudden decision 86 percent of all the currency in circulation to became just a piece of paper having no purchasing power. Government assured that this step would not only result in elimination of black money, it would render worthless the counterfeit notes circulating in the Indian economy which were being used to fuel terrorism and other illegal activities the cash ban caused considerable damage to wheels of the economy. The idea was novel but the repercussions of the decision of demonetization were that there were long queues outside the banks; people were trying to exchange their old currency for the new one and that too to a maximum limit of Rs. 4000/- only at a time as not enough currency had been printed before the announcement. ATMs ran out of cash, people were left with almost no cash to spend and all over a wave of trepidation could be witnessed. India was plunged into chaos. The move was termed as 'surgical strike on black money'. Some applauded the decision of the government while some called it ill-planned. This paper helps understand the positive and negative impact of demonetization.

Keywords: Demonetization, Indian Economy, Key Sectors, black money, cashless system

1. INTRODUCTION

Demonetization means a sudden withdrawal of one particular form of currency from circulation. A step like demonetization is taken up in any economy whenever there is a change in national currency, pulling the old unit from circulation and replacing with the new one.

Demonetization in India

Demonetization is not a new practice in India. India has withdrawn certain denominations of its currency two times before. A year and a half before the independence, in January 1946 the first currency ban took place when Rs. 1,000, Rs. 5,000 and Rs. 10,000 were pulled out of circulation with the objective of curbing black money transactions. This demonetization did not affect the economy as the notes of higher denomination were not accessible to common people and it was only 11.8 per cent of the total currency in circulation. In 1954, all the three notes were introduced again.

Then in January 1978, Janata Party coalition government deemed the Rs. 1,000, Rs. 5,000 and Rs. 10,000 notes illegal to combat black money and counterfeit currency. Only 0.8% of the currency notes in circulation were demonetized. CBDT analyzed this step and its report concluded that the move was ineffective as only 15% of the total currency in circulation was exchanged. People having higher denomination did not come out for the fear of penalty by the Government. Report concluded that demonetization may not be a solution as black money was largely held in the form of benami properties, bullion and jewellery. Such a measure would only result in an increase in the cost as more currency notes have to be printed.

The government of India, on Nov. 8, 2016, promulgated the demonetization of all Rs. 500 and Rs. 1,000 banknotes of the Mahatma Gandhi series. The stripping of the notes of higher denomination of their status as legal tender by the prime minister, which removed a huge sum of around 15 trillion from circulation, was aimed to

tackle the menaces of black money, fake currency, corruption and terror funding which have taken deep roots. With time, more objectives were added such as the creation of a cashless economy and broadening the taxpayer base. Citizens were permitted to deposit the demonetized currency notes in their bank accounts up to 30th Dec 2016 with the facility to withdraw money up to Rs. 4000 at a time. Government allowed demonetized notes at government hospitals, pharmacies, for purchase of railway, airline and government bus tickets, for purchase of petrol, diesel, and CNG, at milk booths, consumer cooperative stores authorized by the State or Central Governments, cremation and burial grounds. Non-cash payments through cheques, demand drafts, debit or credit cards, electronic fund transfers etc. were allowed. New notes of Rs. 500 and Rs. 2,000 were introduced later.

2. REVIEW OF LITERATURE

Rastogi (2018): Studied demonetization, reasons behind the decision and its impact on Indian economy, the impact of demonetization on black money, terrorist activities, note bank politics, fake currency, India's economic growth,

stock market and cashless economy, depicted the status of currency in circulation before and after demonetization and asserted that demonetization was implemented on the perfect time as economy was growing well and could absorb the short term shocks.

Sarkodie (2018): Discussed the demonetization and the poor strata of the society, has explained his study conducted on labour class of Lovely Professional University Campus through formal and informal interactions. He has also depicted the impact of demonetization on several economies of the world and the reasons for their failure and concluded that though demonetization was a great step but it did not eradicate black money and negatively affected the poor.

Antony, etal (2017): Have studied the impact of demonetization on banks and stated diminishing asset quality, reduction in the demand for credit and enhanced deposit base, reduction in profitability as some of the effects of demonetization. They have supported the findings with tables depicting gross NPA and net NPA of various banks in

Sep 2016 and Dec 2016; demand for credit in MSME and agriculture sector in Sep 2016 and Dec 2016; current, savings and term deposits in various banks in Sep 2016 and Dec 2016 and concluded that demonetization brought in sufficient funds in the hands of banks but it increased the quantum of stressed assets which adversely affects the goodwill of banks.

Hosanagar,k, 2017 : The year 2017 has overall been a 'good year' for India. But the biggest wild card is demonetizations. It is unclear how it will play out. But the impact on economic activity and GDP demonetisation brings will be temporary and the long term benefits such as an increase in cashless activity will be more permanent.

Sarkar and Dutta (2017): Discussed the impact of demonetization on healthcare and pharmaceutical industry and interpreted that general impact on the healthcare and pharmaceutical sectors was considerably high in initial days but as days passed the apparent impacts and suffering weakened. They also studied the correlation between healthcare sector and the overall market and found it to be moderately high. They

suggested health insurance as a strategy to fight such uncertainties in future.

Viramani, A,2016 : The manner in which it was implemented is not surprising such action are always secret till announced so that insider do not take advantage of the information at the cost of the outsiders. The wire quoted Viramani as saying, speaking on its short term impact on business community, viramani said" How it will effect require a deeper study, but the first thing one knows is when you demonetize such a large proposition of currency, the immediate effect is a collapse of retail trade in goods & services. He further said the currency needed for everyday transaction has to be replaced quickly. The longer the currency is delayed the more the negative effect"

Amartiyasen, 2016: The demonetization of currency was a despotic act as the government. Demonetization goes against trust. It undermines the trust of entire economy. Only an authoritarian government can silently cause such damage to the people- with millions of innocent people being deprived of their money and being subjected to suffering, inconvenience

and indignity in trying to get their own hard-earned money back.

3. OBJECTIVES OF THE STUDY

1. To study the impact of demonetization on key sectors of the Indian economy.
2. To study whether demonetization have been success of failure

4. RESEARCH METHODOLOGY

This paper uses descriptive research. The paper is based on secondary data. The data is collected from various secondary sources such as journals, magazines, research papers, websites, articles etc.

5. IMPACT OF DEMONETIZATION

The various impacts of demonetization across various sectors are as follows:

Non availability of cash: Demonetization resulted in significant decrease in liquidity in short run. Due to non availability of cash with financial institution there was a sharp decline in the availability of disposable income with the people that affected their spending patterns and consumption trends in the economy in short run. The

demand for consumer goods, real estate and property, gold and luxury goods, automobiles was affected the most.

Demonetization and its impact on poor strata of the society:

Initial impact of demonetization on rural class and weaker sections of the society was significantly affected as poor population depends largely on cash transactions. They are daily wage workers who were compelled to spend much of their time in long serpentine queues before banks and before ATMs that went cashless within hours, at the cost of losing their wages. They did not have work for a number of days as their contractors did not have enough money to pay for their work. Their entire families suffered for days. Some people had to walk 5 kilo meters every day to reach the nearest bank with a hope of exchanging whatever the small amount they had and had to face the burden of anxiety and uncertainty over what would happen if they arrive late in the line and not get their money exchanged and how will they feed their families. Marriages had to be postponed. But some poor had windfall gains too as many rich people used them to stand in the queues for exchange of cash. Poor people were getting money for simply

standing in queues for hours. Some other got windfall by being offered to open Jan Dhan accounts as an escape route for extra cash that the rich people had.

Demonetization and its impact on agriculture sector:

The farmers struggled a lot during demonetization because the saving habits as well as payment mode of farmers were on cash. when withdraws from bank were limited the farmers were unable to draw cash to pay their laboures which result on postponing their works & get the labourers jobless for days or months. These impacts make farmers to depend on illegal money lenders & black marketers to catch their transaction reach. They experienced the problems in sowing Rabi crops due to unavailability of cash to purchase required items and farmers were unable to sell their produce because of the liquidity crunch.

Demonetization and manufacturing sector:

Manufacturing activities were largely affected disrupted after demonetization. There was decrease in demand and supply due to lack of money which resulted in huge dip in manufacturing activities. Compared to past five years i.e from 2012-2016

manufacturing growth was lowest, in the period 2016-17. A body of 3,000 direct members and 70,000 indirect members, expert committee was formed known as AIMO(All India Manufacturing Organisation)and in the survey conducted by the committee concluded that in initial 34 days i.e after November 8, almost all industrial activities had come to stand still and especially small and medium enterprises (SME) sector was worst hit the state of negativity. The impact of demonetization was seen in all types of industries viz., micro/small, medium scale, large scale industries and fully owned foreign entities. Later a detailed survey was conducted by AIMO to unviel the situation towards job cuts and achievements ahead. As per the survey, in those 34 days, all these industries have witnessed a job cut of 30-35 per cent and on the revenue side; these industries faced the losses of 20-50 per cent.

Demonetization and its impact on households:

consumption level decreased as consumers were spending selectively. It is an Indian thing in villages and small towns for housewives to keep their saved cash hidden from their husbands and other family

members for any emergency in the family. Invalidation of higher denomination notes jeopardized this scheme as these housewives had to disclose their hidden savings to their husbands as it was of no worth unless exchanged. There were reports of such housewives getting humiliated by their spouse and other family members on disclosing their hidden savings. This unprecedented move of scrapping the currency notes was no less than an assault on these housewives and their personal savings.

Demonetization and its impact on alternative payment methods:

Demonetization led to the rapid evolution of digital payments. Transactions shot up in December and January, and then stabilized over the following months. If 100 transactions were happening pre-demonetization, after the note ban it shot up to 300, which now has stabilized around 200 or 210 levels, said the bankers. Pay tm has seen 35 million transactions for mobile and DTH recharges on its platform by government scrapping Rs.500 and Rs.1000 notes. With demonetization squeezing major chunk of money in circulation, people were willingly or

unwillingly made to take the route of digital payments.

Demonetization and its impact on

Stock Market: Market plunged 1689 points with BSE slipping below the crucial 26,000 mark to be at 25,902 while NSE fell 541 points to be at 8,002. The market within few days discounted the effect of demonetization and again regained its strong position to close at record high of 29,910 on BSE and 9,237 on NSE on April 3, 2017. The story did not end here and BSE closed at ever record high at 34,592.39 and NSE at 10,681 on Jan. 12, 2018 and in Oct 10 2018 BSE closed at 39,601 and NSE at 14,308. It can be concluded that overall market sentiment is bullish and the timing of demonetization was well accepted by the stock market.

Demonetization and its impact on

retail sector: Demonetization impact was felt more by the small traders and the unorganized retailing segments like low-cost retailing such as local kiranas, owner-managed general stores, convenience stores, handcraft and pavement vendors, rather than the organized retailers like Reliance retail, Big Bazaar, etc as their transactions is

their cash. Impact was temporary but huge. While big retailers managed to shift to cashless means of making and receiving payments, small retailers had no provision of digital payment mode like swiping machine, mobile payments. As a result, their sales dwindled significantly. Thus Demonetization affected only retailers with no online payment facility.

Demonetization and its impact on banking sector: Demonetization resulted in free flow of deposits which they can invest for improving their liquidity, improved digital interface. It resulted in an increase in the number of account holders fall in cost of funds, demand for government bonds, Sagginess in lending opening of Jan Dhan account, push to digital banking and cashless economy. Private sector banks (PSB) recorded no immediate rise and then decline in the post demonetization period. PSBs have thrice the number of branches in the country as compared to private banks (Business Standard, 2016).

Demonetization and its impact on healthcare and pharmaceutical industry: In the initial days of

demonetization, the sufferings of general people to take up medical help in hospitals were high. People were seen dying outside hospitals for refusal of admission, old men crying for help as hospitals denied the operation, chemists not selling drugs in exchange of higher denomination. People not insured with medical insurance faced serious problems. So this sector got a positive effect from abrupt policy as more and more people started taking medical insurance. The impact on healthcare sector is the combined affect of impacts in its different components which are- hospitals, medical devices, clinical trials, outsourcing, telemedicine, medical tourism, health insurance and medical equipment. Medical practitioners having the habit of improper income declaration in order to evade tax are now forced to declare their accurate earnings. 70-80 percent of doorstep services in the industry like homecare and diagnostics were affected due to cash crunch. Medical tourism affected the foreign tourists as multispecialty hospitals refused to accept the old currency. Indian pharmaceuticals market is the thirteenth largest in terms of value and third largest in terms of volume. As per a

report by Equity Master, medicine business is one of the most profitable one and manipulation of actual; profit is also prevalent. Demonetization has forced to conduct every dealing online and through banks thus forcing the dealers to have legal invoices and billing which will help in reducing the rates of medicines. Demonetization has also adversely affected the habit of doctors that they prescribe the medicines on basis of cash or kind they get from the company.

Demonetization and its impact on GDP: Demonetization acted as a liquidity shock that disturbed economic activities, causing a sudden breakdown in India's commercial ecosystem. Trade and trading activity across all the sections of the economy was disrupted. Thus due to demonetisation India lost its positions as the fastest growing developing economy. Reduced consumption, production, employment, income, investment reduced India's GDP growth. India's GDP growth decreased from 7.6% to 6.8 in trailing three months in Jan-March period, lowest in more than two years. In July 2017, it even went down to 5.7 percent and now currently the GDP growth rate

is 7.3% which is showing slow signs of revivals.

Demonetization and its impact on Real Estate Sector: Real estate is an industry that prospers on black money. Huge amount of black money is involved in this sector. Many big B'S moved their unaccounted money into the real estate sector. Therefore demonetization helped in curtailing the use of black money in real estate sector which in turn resulted in the reduction in the prices of land and property. Cash crunch resulted in an abrupt fall in housing demand across all budget categories. Transactions in premium housing sectors and the residential land category which are overly dependent on the cash component came to a standstill. After a year or so, affordable housing witnessed an uptrend due to improved purchasing power. Real estate sector has started witnessing a major revolution with cash transactions getting eliminated and a major share of trades going online with penetration of alternative forms of payment such as e-wallets, plastic money etc. Real estate sector is expected to get cleansed of its ailments in the due course of time owing to the elimination of black money

clubbed with multiple regulatory changes such as goods and service tax act, real estate (regulation and development) act and amendments of the benami transactions prohibited act. Demonetization of old currency has ushered a new era for real estate industry in India that would be transparent, corruption free, organized and veracious. As of today the real estate sector is still in stage of revival after demonetization.

Demonetization and its impact on automobile sector: Demonetization put breaks on automobile sales. Automobile demand was hit hard by withdrawal of high value currency, with total sales of cars, two wheelers and commercial vehicles shrinking to 18.17% which is the steepest drop since 2000. Vehicle sales across categories declined to 1221929 units from 1502314 units in Dec. 2015. Sales of scooters which more popular in urban markets, saw the biggest decline in more than 15 years, falling 26.4% to 284384 units in Dec. 2016 (according to data released by the Society of Indian Automobiles Manufacturers, SIAM)

Demonetization and its impact on political scenario in India:

Political impact of demonetization was huge across the whole country with majority of people offering support to the move. The sentimental speeches against black money made by prime minister drew huge crowds turning into vote banks for BJP which could be seen in the state election as BJP won the states like Uttar Pradesh, Uttarakhand, Himachal Pradesh, Tripura etc. Support for BJP from the educated mass and specially the youth for the bold step taken to curb black money could be seen. However, opposition parties opposed the demonetization move. The ever silent ex-prime minister, the renowned economist dubbed the move as “monumental mismanagement” and “organized loot and legalized plunder” . Opposition parties strongly opposed the implementation process of demonetization.

Demonetization and its impact on counterfeit fake currency and cross border terrorism

Sudden implementation of invalidation of Rs. 500 and Rs. 1,000 notes had a positive impact on

counterfeit currency and cross border terrorism. After 8th Nov., 2016, there was a significant reduction in cross border terrorism but as time passed by, cross border terrorism started to initiate again as newly introduced currency started to circulate in abundance. Also within two months, there were reports of fake notes of Rs. 2,000 being circulated in the system. Income Tax Department announced that it has seized billion of unaccounted cash from people holding currency for which there is no source for them to explain. Strikingly, Rs. 920 million of their seizure happened to be in brand new Rs. 2,000 notes. Many officials were caught red handed in illegal transaction to convert black money into white money once demonetisation was introduced. This could, however, have been prevented by strong security feature. Demonetization was successful in short term but in long term, it was not successful on achieving the stated objectives. The government has to introduce strict measures to achieve the mentioned objective.

Demonetization and its impact on digitization of the economy

As 86 paytm has been 35 million transaction for mobile and DTH researches on its platform. Govt's announcement to scrap Rs.500 & Rs.1000 notes. Percent of the currency was invalidated; people had to adopt digital modes of transaction. As per Govt. data, number of daily transactions through e-wallet services such as Paytm, Oxygen, MobiKwik shot up from 17 lakhs recorded on Nov. 8 when demonetization was announced to 63 lakhs on Dec. 7, 2016 showing a growth of 271 %. Govt. has launched many apps such as UPI, BHIM, Aadhaar Pay, SBI Buddy, Tez etc. to make payments digitally. The efforts have started yielding results with 965 million digital transactions recorded in Oct. 2018. Many banks have seen up to 30-40% increase in digital transactions. From all these impacts, it can be concluded that demonetization was successful in respect to giving digital push to the economy but this move is not sufficient as India still has 20% population that is unbanked, 1.3 billion people don't have access to the internet, 3.5 billion people are without cell phones. There are also appalling deficiencies in cyber security. India offers some of the lowest broad-band

speeds in the world. One third of our population has no reliable electricity supplies. So, the Govt. needs to boost up its digital infrastructure to fully achieve this objective.

6. DEMONETIZATION A SUCCESS OR FAILURE IN INDIA

When government announced demonetization, it stated the following objectives for taking this move:

1. To flush out black money and corruption.
2. To eliminate fake Indian currency notes.
3. To strike at the root of financing of terrorism and left wing extremism.
4. To convert non formal economy into a formal economy to expand tax base and employment.
5. To give a boost to digitalization of payments to make India a less-cash economy.

In a largely cash dependent economy, all cash is not black money and black money is not cash. Most of India's black money has been invested in real estate and other forms of property,

gold and jewellery, investments in property abroad, in Swiss Banks and round-tripping. The government was hoping that this sudden move would eliminate a large portion of black money holdings as it assumed that black money holders would destroy their money rather than disclosing it and Govt. had estimated that around 20- 25% banknotes would not be deposited by the stipulated dates. But those who were holding large quantities of black money seemed more resourceful than the Govt. as they found loopholes in the system and converted black money to white using various means such as opening new accounts using names of family members, housekeeping staff etc. and depositing money in their account, with the result that 98% of the currency in circulation had flooded into banks. Since corruption seems to be a way of life in India, one time activity like demonetization is not enough to curb whole of black money and corruption. Sustained and long term efforts and their proper implementation are required by the Govt. to achieve this objective. Govt. needs to curb the sources of black money.

7. RECOMMENDATIONS

- The critics of demonetization should stop criticizing & blaming the government about their decision rather they should give suggestions to fix the problems they think that has arisen due to demonetization.
- The govt. should make effective planning to handle the effect of these kinds of decision implementations for that they should formulate the special committee consisting of experts from different sectors.
- The govt. should publish the data regarding the Demonetization to make aware the general public about the progress by way of general circular, advertisements, heading etc of the Demonetization.
- The govt. should formulate the policies to help the diseased person that lost their lives due to Demonetization directly or indirectly.

8. CONCLUSION

India being the largest democracy in the world has to face some problems in one way or the other. It is not possible to ensure 100% success for any scheme. However, as a result of their scheme, there has been sudden

short term decline in money supply and with bank deposits. These coupled with regressive impact on real estate & other consumption sector is expected to lead to a reduction of GDP growth. However, this was mostly a temporary and virtual shortfall and demand is expected to get deferred and replenished in the forthcoming future. There is more currency in the Indian economic system right now than there was on the eve of demonetization announcement two-year, Reserve Bank of India data shows. The data also shows that currency in circulation is currently growing at rate of 22.2 percent year on year another set shows in the period after demonetization digital transactions such as bank transfer of debit- credit card payments have grown many fold in the two years since.

Thus, the move which was supposed to root out black money from the economy, helped people launder it as black money clearly continue to be generated- it has merely changed its appearance. Demonetization did not affect the

biggest fish .After a few weeks, it was evident that demonetization would not achieve its two main objectives of black money and counterfeit currency. So, a third objective was introduced which was to move India towards a cash less society. The motive of “cashless economy” was indeed a very noble motive, but at what cost? Truly „cashless“ were the poor Indians who rely on cash for their daily needs. In the game of changing goalposts, increase in the income tax base had been highlighted as another benefit of demonetization. Yes, there has been a marginal improvement in direct tax collection but this still does not justify the destructive effect that demonetization had on economy. All the destruction that was unleashed in the demonetization aftermath could have been avoided, if the Govt. had done its homework before launching the scheme. Decision looked more like miscalculation than a masterstroke. It was clearly an authoritarian policy. There was no “policy-skeleton”, no cost-benefit analysis, and no alternative policy options. Demonetization failed in its

stated objectives as it was an ill-formulated scheme, ill-planned, shoddily thought through, poorly implemented and disastrously executed.

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