

Demonetization-A game Changer for India's Economy

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ABSTRACT

Demonetization has been implemented in India in order to cope up with the various political and economic issues like black money, hoarding, corruption, terrorism etc. Declaration of demonetization on November 08, 2016 had a broad spectrum with a clear headed vision of curbing black money, to detect the fake currency, to keep a check on funding of terrorist activities and to encourage the digitalization giving a brink on which Indian economy could stand with transparency as an effective tool. The economy had to face various challenges and for the banks it was an acid test. The CIC to GDP % showed a perceptible shift away from cash. Notes in circulation also soared along with digitalization. The GDP growth showed a slow down phase due to disruption in transaction of informal sector that is mostly dependent on cash as a medium of payment. 99.3% of the junked currency was detected and received by the banks which was thumbs up condition. The number of tax payers also increased which will increase the public revenue in the future. For any good change, the main ingredient is to accept the change with great endurance. The masses had to face great problems during this phase but that was for a short span of time. The positive impact is increase in transparency and India is now heading from cash dependent economy to cashless economy. The need of an hour is to make the prevalent system transparent, easily accessible and with no complication so that even a layman could also understand it easily. The need is to give impetus and generate awareness related to investment. The thought of saving the money in the lockers at home can be swapped by small investment which can increase its productive utilization. The phase of demonetization clearly revealed the habit of homemakers of keeping money at home. Special education can be imparted and programmes can be launched specifically for this segment for the effective channelization of currency in the productive manner. Special programmes need to be broadcasted or awareness can be created through nukkad natak in the remotest of the areas of the country for the all round growth of the country. This movement has churned the whole system in India and the time is not far when all the evils prevalent in the economy will be uprooted.

Keywords: Demonetization, CIC (Cash in Circulation), GDP (Gross Domestic Product), Notes in circulation

INTRODUCTION

The meaning of the word demonetization is 'the withdrawal of a coin, note, or precious metal from use as legal tender'. Demonetization is a process through which currency unit is stripped of its status as a legal tender. In other words, it loses its status of legal money. The demonetized currency ceases to be legally used as a medium of exchange. In India before this term gained popularity in 2016 among general masses, this tool was used in India in the year 1946 when RBI demonetized 1000 and 10,000 rupee notes. Later, higher denomination bank notes (Rs.1000, Rs.5000 and Rs. 10,000) were re-introduced in 1954 and in 1978, when the then Prime Minister, Morarji Desai demonetized 1000-5000- and 10000 rupee notes in order to suppress the growing black money in the Indian economy. The history of demonetization was again repeated when Government of India announces demonetization of all currency notes with denomination of 500 and 1000 banknotes with Mahatma Gandhi series on 8th November 2016 and this turbulence creating decision was declared by our Prime Minister Narendra Modi at 8:15 PM making high value notes invalid leaving the masses in shock as India has cash dependent economy.

The huge claim of curbing black money, to give an impetus to cashless economy and to detect counterfeit currency was made with this strong step. This declaration created disturbance in the country and people were left with no choice but to exchange within the next 50 days (till December 31, 2016) for valid currency notes of similar value resulting in long queues in banks, chaos, panic and several death. The government, later, replaced old 500 rupee note but no replacement was done for 1000 rupee. Instead 2000 rupee notes were circulated in the economy.

Objectives of Demonetisation in India

- The strong step of Demonetization was taken to curb black money and to identify the black money holders.
- Demonetization was done in order to hit the fake currency racket in Jammu and Kashmir, Naxalite and north eastern states.

- To encourage and give impetus to online transactions and to improvise the transparency in transactions.
- To hit Maoists who reported to hoarded over Rs. 7000 crore with them at Bastar , Chhattisgarh.

Objectives of Study

- To find out the probable consequences of demonetization.
- To analyse the journey of demonetisation from 2016 to 2018
- To analyse the impact of demonetisation

Scope

It covers the study of pre-demonetisation and post –demonetisation conditions posing impact on the growth of the economy as a whole. It also reflects the transition taking place among the masses from cash to cashless economy.

RESEARCH METHODOLOGY

The paper is based on secondary data. The data has been collected from various reports, journals and newspapers bank portals and internet sources.

REVIEW OF LITERATURE

- According to Sasyak Pattnaik (29 November 2016) ,research paper titled ,‘Exploring the Effects of Demonetization in India’ has explained the impact of demonetization in the economy and the various causes responsible for the same.
- P.Patnaik (2016) stated that the black money is generated through tax evasion. Demonetization is a futile exercise unless the effective measures are taken. The pattern of demand and supply needs to be balanced.
- Dr.Ambalika sinha,Divyarai,(2016)”Aftermath of demonetization on Rural Population” explains that the declaration of 86% of currency notes as illegal tender in just a very short span of time mandated the creation of chaos in the daily lives. The supreme sufferers were informal sector. The demonetized driven cash crunch has paralyzed the Indian economy. The informal sector whose contribution is 40% of GDP was left helpless and in vain.
- Kanchan(2016),the research paper titled ‘India Demonetizes currency after 36 Years review ‘Indian rupee has been demonetized various times as well. The demonetization which took place on 8th November 2016 has stunned the nation. This term has been used vivid time but with this stern steps comes with great responsibility of making it successful and least should be the trouble given to the general masses especially middles group and lower middle group.
- Kaur(2016) The research paper analyses the impact of demonetization on Indian economy like inflation, parallel economy ,digitalization, real estate and banking sector, inflation, GDP. Demonetization will likely to reduce the real estate prices. Corruption will also be automatically reduced to some degree. People of the country were trying to convert their black money to Gold or any other precious metal. There will be a positive move in the financial and bullion markets in the long run and could bring the confidence of overseas investors in the Indian stock Market.
- According to Shukla,Bal Govind and Gupta & Hai Om (2018) in their paper entitled “An Exploratory study of Business Students perspectives on Demonetization in India..With special reference to Allahabad City”. Primary data was used for their study and concluded that the people actively support any initiative taken by the Governments which are basically targeted to eradicate corruption, black money and any other threats like terrorism and naxalism in the country.

DISCUSSION

- The objective behind demonetization was to give impetus to transparent cashless economy.

Table 1: Currency in Circulation to GDP

Year	CIC to GDP %
2014-15	11.6
2015-16	12.1
2016-17	8.7
2017-18	10.7

Source- m.rbi.org.in

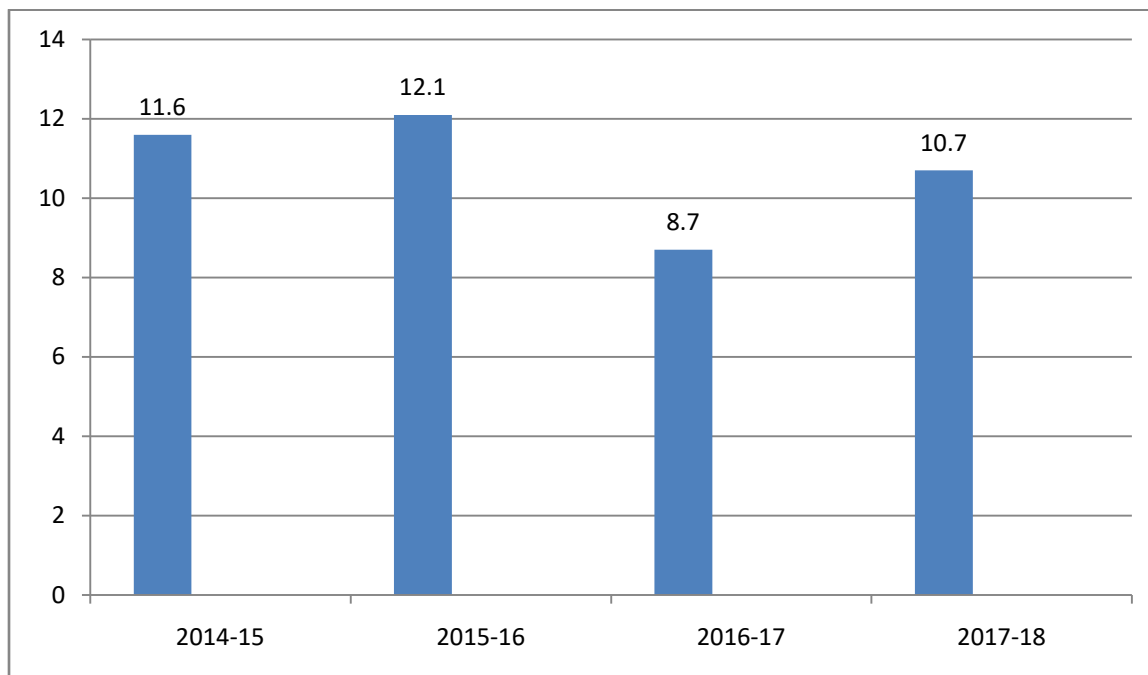


Figure 1: CIC to GDP % In percentage

It is assumed that the high CIC to GDP% is an indicator of cash as highly preferred payment instrument. The above table shows that the India has a strong base for cash payments. The rate of increase in CIC to GDP % in post- demonetization is lower indicating a perceptible shift away from cash. The time is not far when the dream of cashless economy can be achieved.

Table 2 : Notes in Circulation

Year	Volume of Notes(MN Pieces)	Value of Notes
2016	90,266	16,41,571 cr
2017	1,00,293	13,10,193 cr
2018	1,02,395	18,03,709 cr

Source-www.rbi.org.in

The notes in circulation (CIC minus coins in circulation).Notes in circulation increased at a slow pace along with a great surge in digital payments. The reason behind its hike was issue of new currency notes and people started holding it due to shortage in the supply of it. People had to stand in queue for exchange or withdrawal. People started holding cash to meet the various expenses.

Increase in Digital Payments

Demonetization has accelerated the growth of digital payment in India.UPI which was launched in 2016 by NPCI (National Payments Corporations Of India).In 2017,UPI recorde a YoY growth of 900% processing over 100 million transaction with INR 67 billion.In 2018 ,the YoY growth rate was 246% worth over 1.5 trillion processed.In 2019,the YoY growth was 67% of transactions worth over INR 2.9 trillion

Table 3 GDP Pre and Post demonetization

Year	GDP %	Annual change %
2015	8.00	0.59
2016	8.26	0.26
2017	6.80	-1.46
2018	6.45	-0.34

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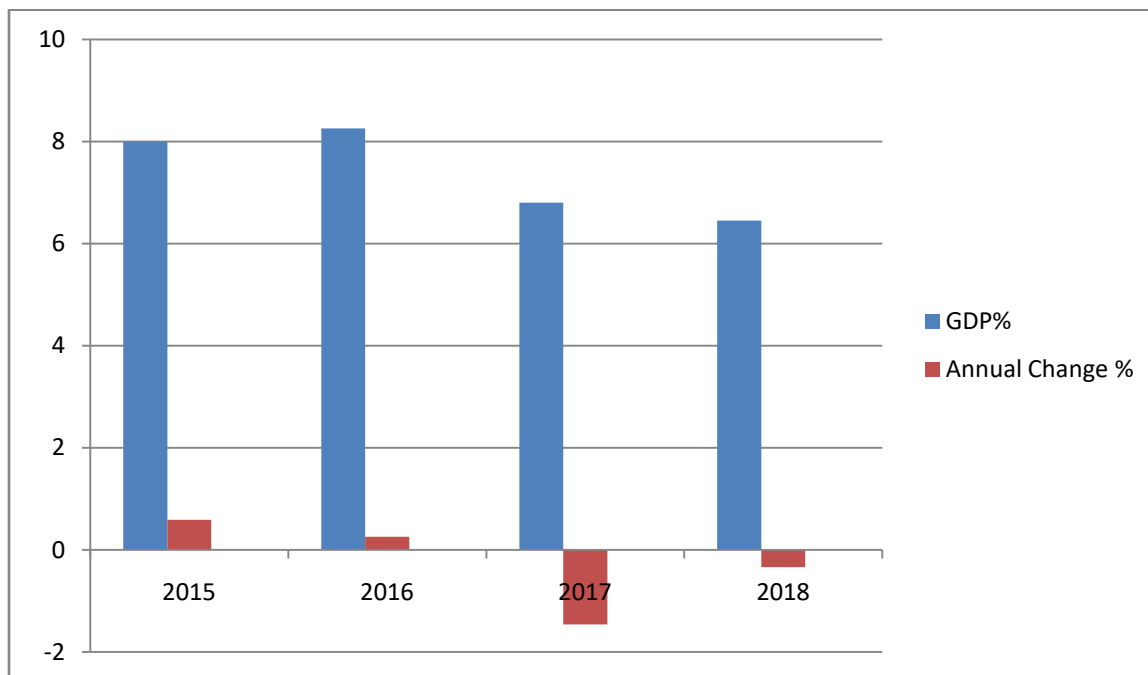


Figure 3

Demonetization has resulted in the short term disruption in transactions in agriculture and related sectors and small establishments. Demonetization phase shows the fall in the growth of GDP. The National Statistical Commission estimate that it has led to the reduction in the share of informal sector to country's GDP.

Table 4: Counterfeit Currency Detected (2015-16)

Denomination	Counterfeit Notes	Notes circulation in	Counterfeit %	Counterfeit Value	Total value
2,5	2	11,626 million	0	7	4069.1 cr
10	134	32,015 million	0	1340	32015cr
20	96	4,924 million	0	1920	9848cr
50	6453	3,890 million	0.0000017	322650	19450cr
100	221447	15,778 million	0.000014	2.21 crore	157780cr
500	261695	15,707 million	0.0000167	13.09 crore	785350cr
1000	143099	6,326 million	0.0000226	14.31crore	632600cr

Source RBI

Assumption- Rs.2 and Rs. 5 notes to be equal

The above data represents the fake currency detected. The number of fake currency notes rose to 20% to 762,072 pieces in 2016-17 from 632,000 pieces in 2015-16. According to RBI report 99.3 % of the junked Rs.500 and Rs. 1000 have been returned to the banking system which is a huge thumbs up. Out of 15.48 lakh crore worth of Rs. 500 and Rs.1000 notes in circulation on 8th November 2016, Rs.15.31 lakh crore were returned. Rs. 16050 crore of the junked notes did reach to the banking system. The value of bank notes in circulation has increased by 37.7 in March 2018. This step acted as a stopper to growing number of counterfeit currency notes. The demonetization of high denomination notes of 500 and 1000 curbed the various activities which were detrimental to the growth of the economy.

Increase in the number of tax payers

Demonetization helped in widening the tax base in India. The number of tax payers have increased. The total number of all returns (electronic plus paper) filed during the entire FY 2016-17 was 5.43 crore which is 17.3% more than the return filed during FY 2015-16.

In FY 2016-17, 1.26 crore new tax payers (return filers plus non-filers making tax payments) were added to the tax base till 30.06.2017. (GOI Press release 31 August 2017) <https://incometaxindia.gov.in>.

FINDINGS

- The rate of increase in CIC to GDP % in post-demonetization is lower indicating a perceptible shift away from cash. The time is not far when the dream of cashless economy can be achieved.
- Notes in circulation increased at a slow pace along with a great surge in digital payments. The reason behind its hike was issue of new currency notes and people started holding it due to shortage in the supply of it. People had to stand in queue for exchange or withdrawal. People started holding cash to meet the various expenses.
- 99.3 % of the junked Rs.500 and Rs. 1000 have been returned to the banking system which is a huge thumbs up. Out of 15.48 lakh crore worth of Rs. 500 and Rs.1000 notes in circulation on 8th November 2016, Rs.15.31 lakh crore were returned. Rs. 16050 crore of the junked notes did reach to the banking system.
- The value of bank notes in circulation has increased by 37.7 in March 2018.
- The number of tax payers has increased. The total number of all return (electronic plus paper) filed during the entire FY 2016-17 was 5.43 crore which is 17.3% more than the return filed during FY 2015-16.

SUGGESTIONS

- The need of an hour is to make the prevalent system transparent, easily accessible and with no complications so that even a layman could also understand it easily.
- To give an impetus and to generate awareness related to investment. The thought of saving the money in the lockers at home can be swapped by small investments which can increase its productive utilization.
- The phase of demonetization clearly revealed the habit of homemakers of keeping money at home. Special education can be imparted and awareness creating programmes can be launched specifically for this segment for the channelization of currency in the productive manner.
- Special programmes need to be broadcasted or awareness can be created through nukkad natak in the remotest of the areas of the country for the all round growth of the country.
- Demonetization was a tough decision but this could only be effective when the policies are effectively implemented with complete dedication and honesty.

This movement has churned the whole system in India and the time is not far all the evils prevalent in the economy will be uprooted.

CONCLUSION

The present study shows the impact of demonetization on India's economical growth and development. The study shows that the economy has started growing as cashless economy. The process of demonetization was able to curb the menace of black money. Demonetization is an effective tool if the government is able to make the future policies and strategies effective and hence implemented with utmost sincerity.

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