

# Impact Demonetization and E-Monetization on Indian Economy –A Study

**Dr.(CA) Subrahmanya Bhat**

Associate Professor, Department of Commerce and Management, VVM'S Shree Damodar  
Commerce of Commerce and Economics Margao- Goa.

Received: May 30, 2018

Accepted: July 12, 2018

## ABSTRACT

*Demonetization by the Government in 2016 has been hailed and also has drawn a lot of flak. On the 8th of November, 2016 when the sun had descended below the horizon and the light of day had completely faded, when people were returning back home from a long day at work, a misty light of a new economy was brewing over the country. All ₹500 and ₹1000 banknotes of the Mahatma Gandhi Series ceased to be legal tender in India from 9 November 2016. Curbing black money and corruption was stated as the main objective behind demonetization. While the immediate effect was seen in terms of huge amount of old currency getting deposited in the banks, the after effects are seen in terms of the sharp increase in e-monetization. The move cannot be certainly viewed as a mere pain-killer. It has medium-term and long-term effects as well. This article attempts to understand demonetization holistically by taking into account its short, medium and long-term effects. Some amount of forecasting has been done to get a feel of the long-term repercussions of demonetization. E-monetization has been kept under special focus as the other side of demonetization. After demonetization, Indian economy got the momentum towards E -monetization. Long-term effect of demonetization couldn't identify yet due to less availability of information set.*

**Keywords:** Corruption, Currency, Demonetization, E-monetization

**Introduction:** On 8<sup>th</sup> November, 2016 and the entire country was injected with a surprise powerful dosage of demonetization. So much has been the popularity of the concept that banks like Kotak Mahindra have come out with a special savings account in the name of “811 account”. Yes, the date has got popular just like “9/11.” While 9/11 was a terrorist attack, 8/11 was an attack on corruption. This study would also help in finding out the sectors that are affected due to demonetization and appropriate actions could be taken by the government by modifying the policies accordingly. This study also shows the way to government to take the decision by observing the objectives and the results of demonetization done in many countries in past.

**History of Demonetization in India:** In India, there were many occasions when high denomination banknotes were demonetized. RBI printed the highest denomination notes of ₹10,000 in 1938. After that government demonetize ₹1,000 and higher denomination banknotes in 1946. Higher denomination banknotes (₹1,000, ₹5,000, ₹10,000) reintroduced in 1954 and all of them were demonetized in 1978 to curb unaccounted money. First time ₹500 banknotes were introduced in 1987 in order to restrain over increasing banknotes, due to inflation and in 2000 again ₹1000 banknotes came back in circulation in order to contain the volume of bank notes in circulation, due to inflation. However, ₹2,000 banknotes were first time introduced in Nov 2016. Along with India many countries in the world had done demonetization in the history. Almost countries that had done demonetization had some common objectives of demonetization which were to curb corruption and black money and their government decided to demonetize their higher denomination notes to rid of these problems. Here is the list of some countries that had done demonetization:

**Impact of demonetization:** Soon after the announcement of demonetization, all banks and ATMs across the country were paralysed because of cash shortages. The cash shortages had many disadvantageous effects on every small business, agriculture, and also on transportation, with people wanting to exchange their old banned notes having lengthy waits in long queues, and several deaths were reported to be linked to the difficulty in exchanging cash. The shortage of cash due to demonetization process resulted in disorder and chaos, and mostly the people holding old currency notes faced difficulties in having them exchanged because of the endless queues outside banks and ATM machines across India. They also ran out of cash only after a few hours of being operational, and about half of the ATMs in the country were not functional. Several deaths were reported standing in queues for long hours at the banks and ATMs to exchange their old banknotes. Deaths were also accounted for the lack of medical facilities or preparations due to denial of old currency notes by the hospitals.

Praise and criticism seems to have balanced-out each other when it comes to demonetization. The Government has maintained firmly that it has been a great move. The move is certainly not intended for

immediate gains alone. It has medium-term and long-term implications as well. Importantly the other side of the coin demonetization is e-monetization. This article places demonetization in perspective with reference to it's after math over a larger time-frame and brings into its stride the impetus on e-monetization.

**Review of Literature:** Demonetization is painful for short term, but it will surely beneficial for the long run moreover most customers are now adopting cashless means like paytm, debit card, cheques Geeta Rani (November 2016 ). The effect of demonetization in the areas like, cash rush, stock market, transportation, agriculture, banking, business, income tax, railways etc. There are no exact proofs of exact black money holding in cash but studies show that around 8% of black money is held in cash ( Singh and Thimmaiah 2017). Financial inclusion can boost the savings as well as credit availability. The study shows that this move of the Government has likely to create long term benefits. Moreover medium to long term Current account and Saving account (CASA) ratio could improve (Sherline T.I 2016)

**RESEARCH METHODOLOGY:** Research methodology is the activity of collecting the information and data, with the intention of doing the research. In this paper Secondary data was collected through various journals and websites.

### OBJECTIVE OF THE STUDY:

The key role of the researcher is to set the clear, unambiguous objectives of the study which may prove helpful for the understanding the study. By keeping in mind this fact he following objectives framed.

- i) To know the impact of demonetization in India.
- ii) To identify the highly affected areas due to demonetization.
- iii) To check the Long-term Impact of demonetization.

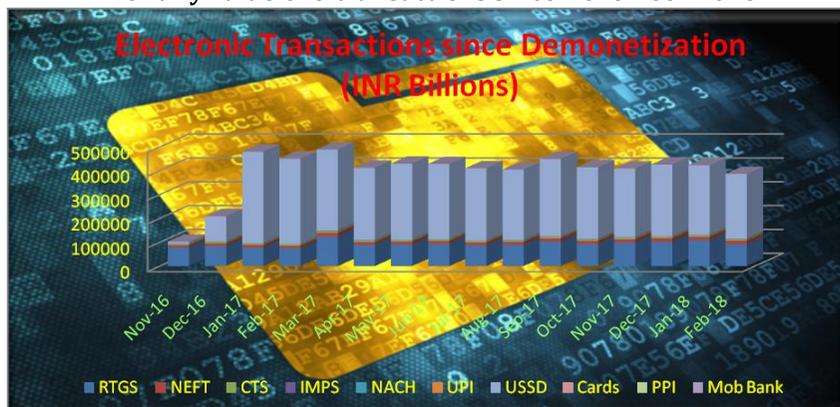
**The impact of demonetization in India:** The initial knee-jerk reaction- On every Friday when a movie is released critics rate those with star ratings on a scale of 5. Demonetization was neither a movie nor was it released on Friday, yet critics rushed and gave it a rating of 2.50 stars on scale of 5. While some felt that it was a blow just at the place where it was required, others complained that it was the common man who was the worst hit. While pictures showing old currency being literally burned to ashes were shown, the fact that more than 100 people lost their lives standing in the long queues at the ATMS was also a ground reality.

The effect in the medium-term: Financial Express (2018) has reported under the title "Big demonetization impact! Income tax bonanza as lakhs of high net worth non-filers pay this whopping amount - The government said that over 2 lakh non-filers came clean about their deposits due to the 'sustained non-intrusive' campaign started after the announcement of demonetization", after demonetization, a total of 3.04 lakh high-net-worth non-filers came under the scrutiny of the Income Tax Department for depositing more than Rs. 10 lakh in old notes in their bank accounts. Of the total, 2.09 lakh non-filers paid self-assessment tax of Rs 6,416 crore, the government told the Parliament. This puts an average tax paid by these non-filers at Rs. 3 lakh per person.

Sukanya Mukherjee (2018), has reported that as a result of the government's unrelenting 'Digital India' push, digital transactions in the country reached a record high of 1.11 Bn in January 2018, up by 4.73% from the 1.06 Bn mark touched in December last year. (This includes all the digital transactions including those over and above executed by NEFT, RTGS, Mobile Banking etc.)

As per RBI statistics released by following is the volume of digital transactions since November, 2016 -

### Monthly value of e-transactions since November 2016



Source: npci.org (2018)

An immediate effect was seen in the month December 2017 with the value doubling from Rs.0.10 trillion to Rs.0.20 trillion. Thereafter the value quadrupled in the next month, January 2017 to Rs.0.48 trillion. Later on the value seems to have stabilized around Rs.0.40 trillion. It is heartening to note that all the instruments, RTGS, NEFT, IMPS, USSD, Cards, Mobile banking etc. have fared very well in providing a good platform for executing the transactions digitally. Thus, we can see a clear correlation between demonetization and e-monetization.

If we access the e-filing website of The Income-tax department, the statistics shown are as under

**Number of Income Tax returns e-filed**

No.	ITR	FY 2016-17	FY 2017-18
1	ITR-1	2,14,55,515	2,90,67,029
2	ITR-2(Till AY 2016-17)	21,89,065	3,76,948
3	ITR-2	-	46,55,177
4	ITR-2A	16,72,759	3,13,934
5	ITR-3(Till AY 2016-17)	9,66,823	1,75,896
6	ITR-3	-	99,08,934
7	ITR-4S	1,18,57,709	29,85,995
8	ITR-4(Till AY 2016-17)	1,23,90,871	1,27,61,551
9	ITR-4	-	44,95,327
10	ITR-5	12,61,922	15,12,496
11	ITR-6	8,01,115	9,38,620
12	ITR-7	2,72,258	2,82,997
	<b>Total</b>	<b>5,28,68,037</b>	<b>6,74,74,904</b>

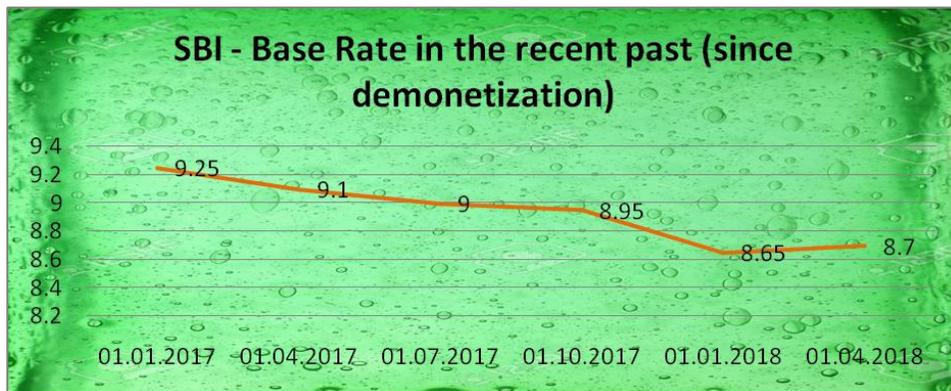
Source: Income Tax.org

The growth in FY 2017/18 was 27 percent over FY 2016/17 when demonetization was announced. As many as 1.50 crore new assesses filed ITRs in 2017/18. Both these statistics – e-monetization and increase in the number of assesses are clear-pointers towards the medium-term gains of the demonetization move. Another important step that the Government has taken in attacking corruption is the cancellation of registration of as many as 2.24 lakh shell companies post demonetization. Further it disqualified 3.09 lakh directors of companies. Firstpost (2017) reported that “Several of these companies are suspected to be shell companies, and restrictions have been imposed on the operation of their bank accounts and sale of movable and immovable properties until they are restored. The decision was taken based on data received from 54 banks post demonetization.” Thus, demonetization is seen as a major turning point in the Indian economy when the Government decided to come out strongly against corruption. Demonetization was one of the elements of the massive attack. Hardayal Singh (2017) writing for the Economic Times have revealed interesting statistics pertaining to the efforts of the IT department to bring things in order. By June 30 of the fiscal 2017, Rs 15.28 lakh crore of Rs 15.44 lakh crore (about 99%) of cash in circulation found its way back to banks reveals that most people exercised the second option and took the risk of depositing their cash holdings in banks. In January 2017, it launched Operation Clean Money under which it scrutinized bank deposits above Rs 2.5 lakh, with the help advanced data analytic techniques, to identify suspicious deposits disproportionate to declared incomes. It raised 18 lakh queries; so far it has received replies from 9.72 lakh taxpayers involving 13.33 lakh bank accounts with deposits of Rs 2.89 lakh crore. These efforts revealed that taxpayers adopted a wide variety of stratagems to launder unaccounted cash holdings.

As a consequence of these steps from the Income Tax Department, advance tax collections were running 41 percent higher than last year. Other benefits, though related to taxation, have been indirect. Cash holdings today, points out the recently published Economic Survey, are Rs 3.5 lakhs crore (or 20percent) less than what they would have been had demonetization not taken place. Many people who kept their savings in cash have now transferred that to banks.

Another impact of demonetization has been on interest rates. Demonetization and the resultant surge of deposits into banks did what RBI couldn't—it ensured banks passed on reductions in the policy rate, helping borrowers. Livemint (2017) reported that in the year after demonetization, even though the RBI repo rate reduced by just 0.25 percentage points, the fall in weighted average lending rate on outstanding loans has been 0.50 points. However, in 2018 banks for the first time raised the interest rates.

**SBI base-rate since demonetization**



Source SBI.Co.in

Thus, post-demonetization the base rate of SBI has gone down by 60 basis points (0.60 percent). This was the effect of the huge bank deposits following demonetization. It was in April this year that SBI increase the base rate by 5 basis points (0.05 percent) after a one-year declining phase.

**Long-term Projections:** By using the MS Excel = forecast function to plot the data for value of e-transactions through March, 2021 based on the actuals till February 2018 since November 2016. The results are as under – (value in INR billions).

**E-transaction values actuals from November 16 to February 18 and projections thereafter through March 2021**

Period	E-trans								
Nov-16	102552	Nov-17	409205	Nov-18	532369	Nov-19	631958	Nov-20	731548
Dec-16	209139	Dec-17	425820	Dec-18	540668	Dec-19	640258	Dec-20	739847
Jan-17	479978	Jan-18	422929	Jan-19	548967	Jan-20	648557	Jan-21	748146
Feb-17	450729	Feb-18	386695	Feb-19	557266	Feb-20	656856	Mar-21	756445
Mar-17	489051	Mar-18	465976	Mar-19	565566	Mar-20	665155		
Apr-17	412696	Apr-18	474275	Apr-19	573865	Apr-20	673454		
May-17	429773	May-18	482574	May-19	582164	May-20	681753		
Jun-17	428607	Jun-18	490874	Jun-19	590463	Jun-20	690052		
Jul-17	410495	Jul-18	499173	Jul-19	598762	Jul-20	698351		
Aug-17	405090	Aug-18	507472	Aug-19	607061	Aug-20	706651		
Sep-17	449407	Sep-18	515771	Sep-19	615360	Sep-20	714950		
Oct-17	414772	Oct-18	524070	Oct-19	623659	Oct-20	723249		

Thus, another 3 years down the line, we may expect that the e-transactions would touch somewhere the Rs.0.70 trillion mark per month (taking into account only RTGS, NEFT, Mobile Banking etc.). That would be a growth of almost 7 times from the November 2016.

Another long-term projection of demonetization is the fear that has been instilled in the minds of currency hoarders. People are often heard of saying that the new Rs.2000 currency note can be replaced any time in the near future. This uncertainty is a great long-term effect that would prevent people from hoarding black money by way of currency. The November 2016 demonetization was not just a one-off attack on corruption. It will serve as a long-term deterrent as well. This check was very much required.

The tendency to cut down the cash components of the transactions is also expected to rise further, particularly in the real estate sector. With the enactment of GST Act, in 2017, along with demonetization cash transactions are definitely expected to wither out significantly if not completely. A positive step the

Government has taken in the year 2017 was when it reduced the marginal rate of Income Tax for the tax bracket Rs.2,50,000-Rs.5,00,000 from 10% to 5%. We can expect that this rate would be NIL in the forthcoming budget. This will only encourage more and more number of people to enter the system of taxation and the money will be in circulation of the white economy.

**Conclusion:** Demonetization has certainly paved the way for e-monetization as is evidenced from the almost four-fold growth these transactions have recorded since November, 2016. In the medium-term, demonetization has led to a significant increase in the tax net widening the tax base by almost 1.50 crore assesses in just one year. In the long-term, demonetization is expected to result in more e-monetization, widening of tax base and also a regime of stable interest regime. It has definitely been the best move since independence to curb corruption at the root. Government wants to bring more and more money in the banking system thereby keeping a check on the interest rates. This is expected to lead India to achieve a healthy growth rate in GDP in the years to come. Government has used a number of technological measures to facilitate demonetization and e-monetization. It is expected that the Government would continue to leverage technology to make India a Digital economy in the near future.

### References

1. Dipankar Dasgupta. (2016, December 17). Theoretical Analysis of Demonetisation. Economic and Political Weekly, Vol II No. 51.
2. Vineet Kohli, R Ramakumar. (2017, January 4). Economic Rationale of Demonetisation. Economic and Political Weekly, Vol. 51, Issue No. 53.
3. Kobad Ghandy. (2016, December 10). Demonetisation One Step Forward, Two Steps Back. Economic and Political Weekly, Vol II No. 50.
4. Arun Kumar. (2017, January 7). Economic Consequences of Demonetisation Money Supply and Economic Structure. Economic and Political Weekly, Vol III No. 1.
5. Mr Brijesh Singh and Dr. N. Babitha Thimmaiah (January 2017) : Demonetization-Win or Lost. International journal of management, social science and technology. ISSN-2320-2339, 2320-2793
6. Geeta Rani (November 2016): Effect of demonetization on retail outlets. International Journal of applied research 2(12):400-401
7. Sherline T.I (December 2016). Demonetization as a prelude to complete financial inclusion: IERJ 2(12) M. Angel Jasmine Shirley (February, 2017). Impact of demonetization in India: Special issue published in International Journal of Trend in Research and Development. (IJTRD).ISSN 2394-9333
8. Chabi Gupta (December 2016). Payment banks and Demonetization. International Journal of Research and Science. ISSN: 2454-2024(online)
9. Financial Express, 2018, Big demonetisation impact! Income tax bonanza as lakhs of high net worth non-filers pay this whopping amount
10. Firstpost, 2017, "Govt cancelled 2.24 lakh suspected shell companies post demonetisation, disqualified 3.09 lakh directors", Nov 05, 2017 14:23:39 IST
11. Hardayal Singh, 2017, Economic Times, November 05, 2017
12. Hindustan Times, Currency demonetisation: Brokers make the most of long queues at banks, Small shop-owners, acting as brokers, are making good use of this opportunity to earn quick money. [black money crackdown](#) Updated: Nov 13, 2016 00:02 IST
13. <https://www.kotak.com/en/personal-banking/accounts/savings-account/811-Account.html>
14. <https://www.npci.org.in/statistics>
15. <https://www.quora.com/If-any-person-in-India-with-heavy-cash-decided-to-burn-500-1000-rupee-notes-is-it-a-loss-of-the-nation>
16. Sukanya Mukherjee, 2018, <https://inc42.com/buzz/digital-transactions-payments-rbi/>
17. [www.livemint.com](http://www.livemint.com),
18. [www.sbi.co.in](http://www.sbi.co.in)
19. <https://www.thequint.com/news/india/demonetisation-in-countries-failure-success>
20. [www.incometaxindia.gov.in](http://www.incometaxindia.gov.in)