

THE POST EFFECT OF 2016 INDIAN BANKNOTE DEMONETISATION ON INDIAN ECONOMY

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ABSTRACT: *The term demonetisation as per its dictionary meaning conveys “the withdrawal of a coin, note, or precious metal from use as legal tender”. The Indian economy has witnessed three demonetisation in the following years namely 1947, 1978 and 2016. Through demonetisation the currency in circulation is blocked and is swapped by first-hand currency. There are numerous motives behind why a country considers to demonetise its currency. . Demonetisation came to the limelight when the government phased out the old ₹500 and ₹1,000 notes from exchange in the economy. As per the Forbes “Modi’s demonetisation is a cure worse than the disease for India” This study is taken to understand the post-effects of demonetisation on the Indian economy, reasons behind demonetisation, understand the sector-wise effect of it. The study is descriptive in nature.*

Key Words: *: Digital economy, Currency, Demonetization, Indian Economy. Cashless transaction. Black money*

INTRODUCTION

On Nov 8, 2016 the Prime Minister Narendra Modi announced through a live session at 20:15 midnight that ₹500 and ₹1,000 notes of the “Mahatma Gandhi series” will not be considered as legal tenders. They will not be accepted as an official mode of payment. A new series of ₹ 500 and ₹2000 were announced on behalf of exchange of demonetised currency. The argument stated by the prime minister behind the move was the restraint the black money and fight increasing corruption the country. The move would halt the shadow economy and would burst use of bogus cash to finance the illegal activities. The aims of demonetisation were as follows:

- i. To curtail black money
- ii. To boost the digital/cashless economy
- iii. To raise tax collections
- iv. To toughen Indian banking system
- v. To include the Jan Dhan Account holders.
- vi. To increase GDP growth
- vii. To hit Naxalites.

To The announcement of demonetisation was accompanied by protracted money lacuna that led to severe disturbances across the country. People had to stand in long queues to exchange their cash and several deaths occurred in the country associated with the urge to replace money.

Initially, the step received great applause from bankers and critiques but later was reviewed as poorly planned and executed. The measure faced several litigations, protests, strikes in various places by the opposition. As per 2018 report of Reserve bank of India, around 99.3 percent (₹15.30 lakh crore, i.e., 15.3 trillion) of the demonetised banknotes, out of the ₹ 15.41 lakh crore that was demonetised, came back in the banking system in the form of deposition. The notes that were not deposited with the bank amounted to ₹10,720 crore (107.2 billion), consequently leading the eminent experts to indicate that efforts to cease the black money were futile. The BSE SENSEX and NIFTY 50 stock indices slipped over 6 percent after the announcement of demonetisation. The measure decreased the GDP growth rate and country’s industrial production.

LITERATURE REVIEW

Sarkar, 2010 administered a study on the “parallel economy in India: Causes, impacts & government initiatives in which the researcher focused on the existence of causes and impacts of black money in India”. As per the research, the Indian Political System is responsible for increase of black money in India. The government of India was engrossed on building committees instead of focusing on implementing them. The research stated that laws ought to be executed in a proper manner to regulate the black money in the country.

Deodhar, 2016 in his research "Black Money and Demonetisation" concluded that it is a step of a portion in the chess board of black money. "To check-mate the black money king, you have to win the board". The government can perform entire steps and still will not succeed if they are performed improperly. The sweat will fetch huge sums of money into the banking system. If the money is utilised in the best possible manner, enormous revenue will be generated.

Economic survey vol I, 2017 examines demonetization by avowing it a fundamental "governance-cum-social engineering measure" as it performed in the middle of "normal economic and political conditions" when Indian economy was progressing at the highest pace in the world with notable set of restructurings and unchanging macroeconomic situation. It concluded that demonetisation has to bear only short term costs. In the long term it will bear fruits.

Shah, 2017 in his study "Impact of Demonetization on Rural India" concluded that Demonetization was a major step in fighting against black money terror funding and corruption. The strategy was performed without adequate planning which created chaos in the general public. Without adequate availability of new banknotes, almost 86 percent of banknotes were wiped out lashing entirely market dealings.

OBJECTIVE OF THE STUDY:

- I. To understand meaning and purpose of demonetisation.
- II. To state the post-effect of demonetisation

Effect of demonetisation:

- ✓ **Black money:** The government at that time, assumed that ₹3, 00,000 crore, or roughly twenty percent, would get permanently out from the cycle of available cash. On the other hand, as per 2018 report of the Reserve Bank of India, around 99.3 percent of the demonetised banknotes came back as deposition with the banking system. The banknotes that were not deposited accounted to ₹10,720 crore. The government was not able to support its argument of curbing the black money.
- ✓ **Bogus notes:** also known as the "counterfeit currency". In the year 2016-2017, counterfeit currency of the denomination ₹500 and ₹1000 increased. While in the year 2017-2018, it declined as the notes were demonetised. In the next year 2017-18, resulted in the increase in the denomination of ₹500 and ₹2000.

Number of counterfeit banknotes detected in banks (April - March)^[79]

Denomination	2015-16	2016-17	2017-18
₹1	2	3	4
₹2 and ₹5	2	80	1
₹10	134	523	287
₹20	96	324	437
₹50	6,453	9,222	23,447
₹100	2,21,447	1,77,195	2,39,182
₹200	NA	NA	79
₹500 (old)	2,61,695	3,17,567	1,27,918
₹500 (new)	NA	199	9,892
₹1000	1,43,099	2,56,324	1,03,611
₹2000	NA	638	17,929
Total	6,32,926	7,62,027	5,22,783

Source: www.wikipedia.com

- ✓ **Evasion:** In many parts of the country, like Gujarat and Delhi, transactions of gilt and gold amplified post-demonetisation, with an increase of 20 to 30 percent supreme quality raising the price upto as ₹45,000 from then price of ₹31,900 per 10 grams. There were several cases of money laundering found in case of jewellers, co-operative banks, dealers of mobile phones etc.
- ✓ **Online transactions:** there was a drastic increase in the digital payments in the year 2016 due to the scarcity of money.. The credit card importance also increased but there was not much of a growth in them. The debit card sale transaction doubled than expected.

Digital Drive Gathers Momentum

	2017			2016		
	JAN	FEB	MARCH	JAN	FEB	MARCH
VOLUME OF TRANSACTIONS (IN MILLION)						
Debit Cards	1,040.97	944.32	981.28	817.51	796.69	844.59
IMPS	62.42	59.75	67.41	22.48	23.86	25.98
PPIs	295.8	280.02	342.09	65.25	65.37	72
VALUE OF TRANSACTIONS (IN ₹ BILLION)						
Debit Cards	2,006.48	2,286.82	2,616.45	2,327.99	2,259.57	2,342.82
IMPS	491.25	482.21	564.68	165.59	169.67	198.73
PPIs	110.01	96.28	106.77	49.09	49.98	59.72

Source RBI

Source: www.rbi.org.in

- ✓ **Real estate and property:** the real estate sector comprises of four sub sectors: Hospitality, housing, commercial and retail. The property sector of India was a heaven for unsolicited money. Demonetisation brought a Demonetisation brought a lot of misunderstanding and ambiguity regarding the structure of the transactions involved, there was a scarcity of cash responsible for many dealers to opt out of the business. Post demonetisation the sector has become more lucid .it is constantly being monitored by RERA, Benami Transactions (Prohibition) Amendment Act 2016, and the GST.
- ✓ **GEMS and jewellery:** The All India Gems and Jewellery Trade Federation, a self-supervisory body consisting of the jewellers stated that their yearly profits had reached ₹480,000 crore prior to the demonetisation step. Post-demonetisation, the association stated that it has documented a damage of Rs 30,000 crore in just the previous 20 days of the year 2016.
- ✓ **Hospitality and tourism:** Initially, the tourism and hospitality industry had to face a slowdown after demonetisation as the sector requires a high liquidity of cash. The sector consists of unorganised people and they had to face a cash crunch. But the sector is on its way to recover from the damage. The demonetisation knocked the sector on its peak months. Cash scarcity situation at hotels and airports was problematic.

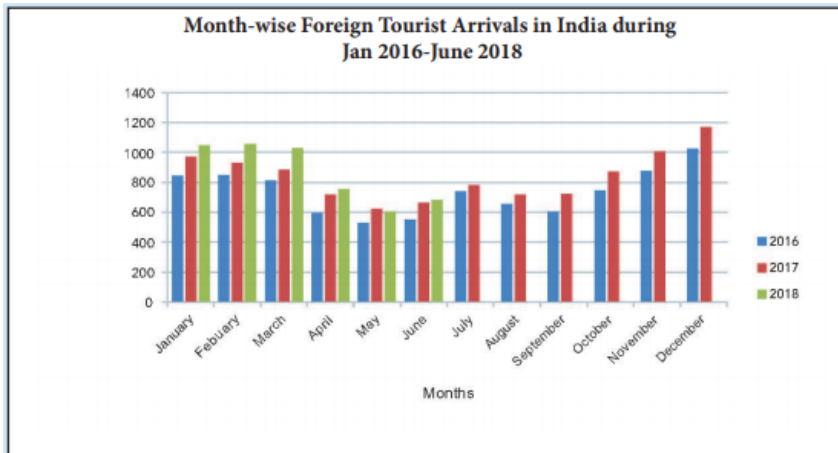
Inbound Tourism: Foreign Tourist Arrivals (FTAs), Arrivals of Non-Residents Indians (NRIs) and International Tourist Arrivals (ITAs) 2000-2018 (till June)

Year	FTAs in India (in million)	Percentage(%) change over previous year	NRIs arrivals in India (in million)	Percentage (%) change over the previous year	International Tourist Arrivals in India (in million)	Percentage (%) change over the previous year
2000	2.65	6.7	-	-	-	-
2001	2.54	-4.2	-	-	-	-
2002	2.38	-6.0	-	-	-	-
2003	2.73	14.3	-	-	-	-
2004	3.46	26.8	-	-	-	-
2005	3.92	13.3	-	-	-	-
2006	4.45	13.5	-	-	-	-
2007	5.08	14.3	-	-	-	-
2008	5.28	4.0	-	-	-	-
2009	5.17	-2.2	-	-	-	-
2010	5.78	11.8	-	-	-	-
2011	6.31	9.2	-	-	-	-
2012	6.58	4.3	-	-	-	-
2013	6.97	5.9	-	-	-	-
2014	7.68	10.2	5.43	-	13.11	-
2015	8.03	4.5	5.26	-3.1	13.28	1.4
2016	8.80	9.7	5.77	9.7	14.57	9.7
2017	10.04	14.0	5.51	-4.5	15.54	6.7
2018(P) (Jan-June)	5.16	7.9 @	-	-	-	-

Month	2016	2017	2018(P)	Percentage (%) Change	
				2017/16	2018/17
January	844533	964109	1047948	14.2%	8.7%
February	848782	931025	1052766	9.7%	13.1%
March	809107	885936	1025830	9.5%	15.8%
April	592004	717899	749477	21.3%	4.4%
May	527466	622408	606043	18.0%	-2.6%
June	546972	663470	681279	21.3%	2.7%
July	733834	779309		6.2%	
August	652111	719129		10.3%	
September	608177	719964		18.4%	
October	741770	866976		16.9%	
November	878280	997738		13.6%	
December	1021375	1167840		14.3%	
Total (Jan-June)	4168864	4784847	5163343	14.8@	7.9@
Total (Jan-Dec)	8804411	10035803			

P: Provisional, @:Growth Rate over January-June of previous year
 Source: (i) Bureau of Immigration, Govt. of India, for 2016, 2017 & 2018

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Source: <http://tourism.gov.in>

- ✓ **Agriculture:** the demonetisation smashed the farmers in an adverse way. The farmers did not have the means to purchase pesticides, seeds and fertilisers. The rabi crops were not sown at the proper time. The opposition held numerous rallies to protest against the measure. Some farmers even committed suicide by unavailability of proper information. It decreased the bargaining power of farmers and led to reduction in the comparative wages.
- ✓ **Automobile:** the automobile sector witnessed the major monthly drop in sixteen years in December post demonetisation. The sector used to deal in liquid cash for trading in luxury cars, SUVs. After demonetisation, the sales fell abruptly but the sector has recovered from the slowdown. Automobile Domestic Sales Trends

CATEGORY	2016-17 (₹)	2017-2018(₹)
Passenger Vehicles	30,47,582	32,87,965
Commercial Vehicles	7,14,082	8,56,453
Three Wheelers	5,11,879	6,35,698
Two Wheelers	1,75,89,73	2,01,92,672

Source: <http://www.siamindia.com/statistics.aspx?mpgid=8&pgidtrail=14>

- ✓ **FMCG:** The demonetisation has caused changes in both the relationship between retailer to distributor and customer to retailers. The outcome of initial demonetisation was negative. All the

unorganised small retailers were effected as they were dealing in cash. After the availability of new currency to them, the situation improved. The companies and customers shifted to cashless podiums for buying and selling.

- ✓ **Health:** Most of the patients annulled their diagnostic appointments. The AIIMS recorded 22 % plunge in number of patients on 11th November. The medical insurance companies gained from the measure. Medical tourism facility was highly affected by it. The medicines sale fell down, this prompted the legal invoicing of the bills. The drugs dealings above ₹20,000 were administered in an improved mode.

CONCLUSION

The objective of demonetisation to cease black money and halt terror funding was not achieved. The small and unorganised sector was badly hit by the measure as they lost their jobs and faced declination in their wages. The demonetisation came as a blessing for the e-wallets companies. The Modi's government decision to demonetise the old currency with the new one led to massive debates and created chaos among the general public. The economist labelled it as a disastrous move as 99 percent of the money came back. The supporters of the government pronounced it as a historic decision to lead India towards cashless economy. The opposition remarked it as a failed move which only resulted in discomfort to the general public.

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was a serious attack on black money, corruption, hawala transaction, counterfeit currency and terror financing. On the other hand, it had a negative impact on various sectors like commodities and real estate.

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