DEMONETISATION- ITS PROS AND CONS

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ABSTRACT
This paper analysis the after effects of demonetization in India. Advantages and disadvantages of demonetization vary from sector to sector and also person to person. Demonetization is not a new concept for Indian economy, it was even used in India in 1946 and 1978 as well, but depending upon the differences in situations, the effects also differs. The media was not so significant and so close to people at that time, therefore the realization by people was limited. Besides, population was also limited and availability of that people having those currencies was also limited. Mainly this move was for controlling the black money from circulation. This move was realized also, when the false notes were found spread out here and there in different parts of the country. With limitations in bank accounts as a complementary to demonetization the rich people were found to be effected highly. Jan dhan accounts were also affected indirectly as well as directly afterwards.

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. Demonetization is a radical monetary step in which a currency unit’s status as a legal tender is declared invalid. This is usually done whenever there is a change of national currency, replacing the old unit with a new one. Such a step, for example, was taken when the European Monetary Union nations decided to adopt Euro as their currency. However, the old currencies were allowed to convert into Euros for a period of time in order to ensure a smooth transition through demonetization. In the past many countries have attempted demonetization, some successfully and some unsuccessfully, but all of them were done when their economies were having major problems like hyper-inflation in Germany in the 1920s. Zimbabwe, Fiji, Singapore and Philippines were other countries to have opted for currency demonetization.

In India as well demonetization is not a purely new concept. In 1946 under the British rule 10 pound currency was called back 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 demonetised 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. However, this is the first time that Rs 2,000 currency note is being introduced. While announcing currently circulated Rs 500 and Rs 1,000 notes as invalid from midnight tonight, Prime Minister Narendra Modi said new Rs 500 note and a Rs. 2,000 denomination banknote will be introduced from November 10. Bank notes in Ashoka Pillar watermark series in Rs 10 denomination were issued between 1967 and 1992, Rs 20 in 1972 and 1975, Rs 50 in 1975 and 1981 and Rs 100 between 1967-1979. The banknotes issued during this period contained the symbols representing science and technology, progress and orientation to Indian art forms. In the year 1980, the legend Satyameva Jayate -- ‘truth alone shall prevail’ -- was incorporated under the national emblem for the first time. 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 additional/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.

REVIEW OF LITERATURE:

Neoliberal Urbanization in Europe: Large–Scale Urban Development Projects and the New Urban Policy


it is imperative to evaluate the short run and medium-term impacts that such a shock is expected to have on the economy. Further, the impact of such a move would vary depending on the extent to which the government decides to remonetise. This paper elucidates the impact of such a move on the availability of credit, spending, level of activity and government finances.

2. BLACK MONEY AND DEMONETIZATION by Rahul Deodhar

There are various steps required as detailed above. Government can play all these moves and still fail if they play improperly. All we can say is that Government is playing well. But will it succeed? The efforts will bring massive amounts of cash into the banking system—a benefit in itself. Once the money is in the legitimate channels, it should be better utilized and revenue will be generated from its use.


Black Money in India: Present Status and Future Challenges and Demonetization by Nikita Gajjar

Consumer spending activity to a near halt. Consumers are refraining from making any purchases except essential items from the consumer staples, healthcare, and energy segments. Activity in the real estate sector, which includes a lot of cash and undocumented transactions, slowed down significantly, Metropolitan and Tier 1 cities reported up to a 30% fall in house price.

OBJECTIVES-

- To evaluate the effect of demonetization in socio-economic conditions in India.
- To understand the need of demonetization in different reasons
- To identify the comparative benefits of demonetization in different types of government and economic conditions.
- Identify the steps for perfect demonetization for successful demonetization
- To illustrate the reasons behind collapse of stock market after demonetization.

RESEARCH DESIGN-

This paper is purely based upon the secondary data. The articles, thesis’s and newspapers are the main source of data. These sources are utilized as a reference purpose only. This paper analyses the comparative study before and after demonetization diagrammatically.
IMMEDIATE DISADVANTAGES OF DEMONETISATION

- **Chaos:** After the demonetization of currency was announced, people wanted to get rid of Rs 500 and 1,000 notes at the earliest. As a result, many people have collapsed and died during note exchange rush.

- **The Cost to the Government:** Replacing Rs 500 and 1,000 notes with other denominations could cost the Reserve Bank of India more than 12,000 crores, taking into account the notes in circulation and the cost incurred to print them.

- **Loss of Business:** Due to demonetization, the business has been negatively affected as the vendors don’t have enough change to return to their customers. Some of them are still accepting credits and the old currency, but still, people are spending less than they used to. This has even affected restaurants and other business which accepts digital mode of payment.

- **GDP Growth:** It is estimated that the demonetization-driven cash crunch will result in GDP growth crashing to 0.5% in the second half of the financial year 2016-17.

- **Fake News:** Some big media houses and well-known persons are spreading and sharing news incidents that occurred a few months ago and are linking it to demonetization without knowing the truth behind it.

- **Exploitation:** As it is hard to get your hands on the new currency without standing in a queue, those who are in urgent need of money are getting the currency exchanged from others for commissions ranging up to 40%. Owners of petrol pumps and other services are demanding the customer to avail their service for a minimum of Rs 500 or 1,000. Some black money holders haven even hired people to stand in queue for them throughout the day to get their note exchanged for a small commission.

- **Not as Effective:** Demonetization was mainly targeted at black money holders, but they have found a way around it by getting the currency exchanged from others for a commission of 20 to 40 percent. Some people have died and there are even variations in some of the printed notes.

IMMEDIATE ADVANTAGES OF DEMONETISATION

- **Fake currency collapsed:** Fake currency and is out of circulation at the moment and it will take some time to print the new ones and circulate them.

- **Distribution of income:** Around 30% of the Jan Dhan Accounts have been filled with money up to 49,000, which results in distribution of wealth, although its not authorised

- **Stored money by terrorists becomes invalid:** The flow of currency to support terror groups has stopped. As a result, many states are back to normal.

- **Money stored in home is deposited into banks:** More than 5 lakh 44 thousand crores have been deposited in banks, which were saved in terms of physical money in the households, as they couldn’t exchange such a large amount of money.

- **Pending bills are cleared:** More than 1 lakh crore has been paid against the pending bills in terms of currency as the owners wanted to utilize their currency and only limited amount was accepted as deposits in banks.

- **Digital mode of payment:** Even small-scale shopkeepers have started accepting digital mode of payment as they are left with no other choices which prevent them to ask for higher price.
**Limitation in saving:** Inflation is set to reduce as some of the black money will get taxed heavily.

**REAL LIFE CONSEQUENCES:**

- **Real Estate**
  
  Since Real Estate is driven by the black economy, this was the sector that was probably the worst hit of all the sectors. The Nifty Realty index gapped down after the day of the demonetization move and corrected -25% (as indicated in the chart below, the NIFTYREALTY bounced of the Auto-SR very strong support of 152.5 on a weekly chart) before recovering a bit. It is still down almost -16% from 8th Nov. Since many real estate properties have a big black money component, they are expected to go through at least a 20-30% correction, and hence for the foreseeable 2 quarters at least, chances are that this sector will probably go lower before it starts to improve.

- **Consumer Durables**
  
  This sector is primarily driven by cash and hence has also been hit hard. It is down by almost 11.7% since the demonetization announcement.
• **Banking**

The Banking sector took an immediate hit the day after the announcement but recovered on Nov 10th. But, it has been subsequently correcting as it is still grappling with trying to replenish the cash in the economy. However, this is one sector which is expected to benefit in the long term because a lot of the black money will be deposited in bank accounts and the excess funds in the banking system will also help address the *non-performing assets* (NPA) problem that many of the banks are facing due to bad loans. Due to these NPA problems, a lot of the infrastructure funding etc has also been affected and hopefully, that should also be addressed when the current cash crunch is reduced and economy claws back to normalcy.

• **Infrastructure**

The infrastructure sector is driven by massive investments from government as well as loans from banks. One of the health effects of demonetization is to increase the liquidity in the banking system as well as increase the funds that the government has for spending on items like...
infrastructure, welfare etc, so the Infrastructure is an obvious beneficiary of that. The fact that the NIFTYINFRA index has not been affected much (as is confirmed by the fact that it is up marginally since Nov 8th in the chart below):

- **Information Technology**

  The IT sector has been largely unaffected by the demonetization as it is export oriented and hence relatively better positioned to handle shocks in the Indian economy. Moreover it is probably also largely a cashless sector and hence also not affected due to the cash being taken out of the economy. The NIFTYIT chart below shows that the IT sector is actually doing better than from what it was on Nov 8th.

- For those traveling abroad from India, there are many options to carry the foreign currency. Some of these ways are listed below:
  
i) **Cash-in-hand:** Money exchange can be done by directly buying foreign currency notes and coins with the Indian currency. Banks, local vendors, or other private foreign exchange counters provide the facility for the same.
ii) **International activation on Debit and Credit Card:** Your own debit/credit cards may be activated to support foreign ATM withdrawal. All you need to do is call your bank’s customer care and they will guide you accordingly.

iii) **Prepaid Forex Travel Cards:** Banks and other Forex currency counters provide prepaid forex travel cards that act very much like the conventional ATM cards.

iv) **Traveler’s Cheques:** Traveler’s cheques used to be a popular way to carry money abroad a long time back. Due to the strict approach to the use of money, it is getting little antiquated and hence is not used in many situations. However, they are quite immune to the possibility of theft.

- **Export and import**
  Growth of any Country depends on its Export Import Trade. Indeed it is very crucial for India too. Especially after demonetization the Exports have slowed down due to currency crunch. True to its core that instability in the Exports leads to inflation and that in turn leads to an uncertainty of internal purchasing power and unstable economy. 8th November 2016 marked in history when India announced demonetization of its large currencies India’s import and export business is hugely affected by the recent and shocking announcement of demonetization. The Foreign Trade industry is suffering in the aftershocks and shall continue to suffer for a further period, though for limited time. However the influx of money from the black market shall certainly improve to be beneficial in the long run for Export Import Trade. The fact lies at the moment that plunge in money supply with overflowing bank deposits ring an alarm in consumption demands, means decline in imports. The Indian Government has always paid incentives and promoted Export with easy policies. Nonetheless the Exports market is taking a toll at the moment. Make in India projects need easy flow of currency for manufacturing, hence the Import and Export both trade have got their bottlenecks. This has changed the algorithm in today’s economical situation. However stable exchange rate is an idle situation as Volatility vitiates the Trade for India. For a few months India’s Exports may be slow but consider that for any acceleration, the vehicle must be slow to begin with. Am sure India shall come out with higher GDP and influx of foreign exchange with prosperous Exports, in sooner times than thought of. In Modi’s “Swachh Bharat” mission, Exports is the best answer to bring in Foreign Exchange and make India prosper with “clean” business, a scene without black or unaccounted money. Wishing and hoping our Export Import to get back on its business toes soon to support the Indian economy.

**FINDINGS-**

- Indian people start using digital money due to unavailability or limitation of cash withdrawal from commercial banks.
- Chaotic situation arises due to long quo in front of the ATM and in banks for exchanging invalid currency of is temporary. as soon as RBI distributes new currency and money in hands of people exchanged, this situation has come down
- It was a must change to check black money. as a result black money holders are seen to throw their money which they were unable to exchange.
- Central government was not prepared to demonetize in such a short notice. It was a sudden decision taken by government even RBI had to print legal currency by day and night to tackle the problems.
- Mixed effects on the different sectors of the economy. Real estate and consumer durable sector hurt most as the former is basically depends on black money and later depends mainly on cash.
Many JDY accounts were closed due to the arrival of new illegal business of transferring non-exchangeable cash to those accounts at a certain deal. When those persons were unable to produce valid documents for those abnormal cash flows to their accounts than RBI blocked those accounts.

CONCLUSIONS-

The positive effects of demonetization can be realized only in the Long run, when both people and government will be habituated of cashless intensive transactions. Before announcing about the no legal tender of Rs. 500 and Rs. 1000, RBI must have to confirm about the availability of other currencies like Rs. 100 and Rs. 2000 so cover the gap after withdrawing of legal tender of Rs. 500 and Rs. 1000. After 20 days of announcing of demonetization only cash becomes available in the economy. But maximum cash is in terms of Rs. 2000, which creates another problem liquidifying of the cash in small amounts. Besides, Demonetization is not the only measure to reduce the Black money. There are many major issues related with black money, which cannot be solved though demonetization of currency. The measure for reducing chaos is habit of using digital money, but Indian society is not mature enough to be habituated of this. More than 60% of citizen does not have either Debit or Credit cards, nor even a smart phone or knowledge of procedures, which makes demonetization a distant dream.

References-

1. Investerindia (2016), EFFECT OF DEMONETIZATION ON THE INDIAN STOCK MARKET, November, 2016, accessed