

## POST DEMONETISATION SCENARIO IN INDIA

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### ABSTRACT

On the one year anniversary of prime minister Narendra Modi's demonetisation announcement, experts and politicians on all sides have been debating, whether their risky policy was a success or a failure. The decision to demonetize high denominated value currency of Rs 500 and Rs 1000, was part of the government's overarching agenda to crack down on black money and move towards a cashless economy.

Did demonetisation convince cash-dependant India to switch to digital transactions and mobile wallets? What is the impact of demonetization on country's GDP, employment rate and so on? It's the right time to analyse the post demonetization impact on many economic and non-economic issues of the country.

**KEYWORDS:** Black Money, Corruption, Demonetization, Digital India, Fake Notes

### INTRODUCTION

Government of India in a notification, dated November 8, 2016 have withdrawn the Legal Tender status of 500 and 1,000 denominations of banknotes of the Mahatma Gandhi Series issued by the Reserve Bank of India till November 8, 2016. Taking the nation by surprise, Prime Minister Narendra Modi on Tuesday night announced demonetisation of Rs. 1000 and Rs. 500 notes with effect from midnight, making these notes invalid

- to effectively nullify black money hoarded in cash
- Curb funding of terrorism with fake notes.
- to check corruption in the country

From midnight of November 8, 2016, Rs. 500 and Rs.1000 will cease to be legal tender. "These notes are just papers from tomorrow," says the prime minister. People holding notes of Rs. 500 and Rs. 1000 were allowed to deposit the same in their bank and post office accounts from November 10 till December 30. Recently on 8<sup>th</sup> November, 2017 the opposition parties like congress, communists etc., protested the day as 'black day', while the government announced that the day will be celebrated as 'anti-corruption day', hereafter. On the eve of first anniversary of demonetization, it is rational to through some light on post demonetization issues.

### Economic Growth

Indian economy grew at a better-than-expected rate of 5.3 per cent as against the expectations of 5-5.1 per cent range in July-September quarter on account of improved performance of mining, power and certain services sectors. The Gross Domestic Growth in the second quarter was better than 5.2 per cent of the same period last fiscal but was slower than 5.7 per cent rate achieved in April-June quarter of current fiscal. According to data released by the Central Statistics

Office (CSO), the economic growth in first half (April-September) of this fiscal was 5.5 per cent as compared to 4.9 per cent in the same period in 2013-14. The real GDP growth rate shows a continuous declining tendency in the pre-demonetization quarters of the financial year. GDP growth rates were 9.1, 7.9 and 7.5 respectively for March, June and September quarters of 2016. The same trend continued after demonetization also. It further declined to 7, 6.1 and 5.7 per cent for December, March and June 2017 quarters i.e., post demonetization period.

### **Currency in Circulation**

The decision to demonetise higher denominated currency notes was part of the government's overarching agenda to crack down on black money. Statistical data shows, to some extent government get succeeded in this direction. Total money in circulation on November 4<sup>th</sup>, 2016, 4 days before the demonetization, was 17.97 lakh crores. After demonetization, the currency with Rs.500, Rs. 2000, Rs. 200 was replaced and put under circulation. As on 27<sup>th</sup> October, 2017 the total currency in circulation is 16.35 lakh crores. It means, 1 lakh 62 thousand crore rupees less than pre-demonetization period. Though the black money identified through the process of demonetization is much less than what government expected, but this makes it clear that most of the black money in the country is not in cash form but hoarded in the form of assets, investments, properties etc. That's why before announcing demonetization, Indian government passed the Benami Transactions (Prohibition) Amendment Act, 2016 (BTP Amendment Act) in August. It came into force from November 1, 2016. The new law seeks to give more teeth to the authorities to curb benami transactions.

### **Inflation**

The impacts of demonetising high value currency notes have no effect on inflation. The mean inflationary rate of all commodities as per the whole sale price index was negative before demonetization process. During the process it was around 3 per cent and it recorded same in September, 2017. WPI of fruits and vegetables fluctuated in pre and post periods as well. A drastic decline in the WPI of pulses can be observed for the same period.

### **E-cash and Digital Payments**

As is expected, cashless payments increased with demonetization. Using of different cashless modes of transactions by the people clearly indicated that demonetization is a step ahead towards digital India. A popular e-cash payment mode, National Electronics funds Transfer System (NEFT) gained a momentum with the process of demonetization. Value of transactions through NEFT system is almost doubled due to this (7087 bn. Rs. in January, 2016 to 12500 bn Rs. by August, 2017). Other means of cashless payments such as debit, credit cards and IMPS also raised significantly.

### **M-Wallet Payments**

Enormous growth can be observed in the use of m-wallet mode of payment for online purchases and even for spot payments. Total value of business through m-wallet mode of payment is almost tripled due to demonetization. As per the statistical data, the total value of transactions via m-wallet was 22.14 bn. Rs. in January, 2016 and increases to 83.53 bn. Rs. by January, 2017, but declined slightly to 72.62 bn. Rs by 1<sup>st</sup> August, due to filling up of sufficient currency in the economy by the RBI by that time.

### **Stock Market**

Major stock markets of the country BSE and NIFTY continued and recorded new heights even after demonetization process. Domestic and foreign investors of the capital market pay no attention on this move of the government and continue their hopes on the economy. BSE sensitive index which settled at 27,459 mark, just a few hours before the announcement of demonetization i.e, at the ending session of 7<sup>th</sup> November evening 2016, rises uninterruptedly, and reaches new historical height by 6<sup>th</sup> November, 2017 to 33,680, exactly a year after demonetization. Similar trend is noticed in BSE index which increased to 10,443 from 8.497 between the same time periods. From this it is clear that stock market never affected by the move of demonetization.

### **Demand for Consumer Goods**

As all expected that the demand for consumer goods falls due to the shortage of new currency in post demonetization period, but in practice, this expectation proved wrong. Demand, sales and number of units for most of the goods exhibit an upward movement, ofcourse, with little pause while the announcement. Marico, GCPL, HUL, Dabur India etc., consumer good companies show substantial improvement in all fields of production, sales, profits etc.

### **Unemployment Rate**

Since consumer demand has slowed and consequently industrial production has declined, employment generation has been adversely impacted by the currency demonetisation drive. Since the manufacturing sector which accounts for the highest employment of skilled and semi-skilled labourers, is witnessing slowdown in production; not only less jobs are being created but lay-offs are also taking place at a higher rate.

Unemployment in India is projected to witness marginal increase between 2017 and 2018, signaling stagnation in job creation in the country, according to a UN labour report.

The United Nations International Labour Organisation (ILO) released its 2017 World Employment and Social Outlook report yesterday, which finds economic growth trends lagging behind employment needs and predicts both rising unemployment and worsening social inequality throughout 2017. Job creation in India is not expected to pick up pace in 2017 and 2018 as unemployment rises slightly, representing a near stagnation in percentage terms.

"Unemployment in India is projected to increase from 17.7 million last year to 17.8 million in 2017 and 18 million next year. In percentage terms, unemployment rate will remain at 3.4 per cent in 2017-18," the report added. India had performed slightly well in terms of job creation in 2016, when a "majority" of the 13.4 million new employment created in Southern Asia happened in the country.

### **Black Money**

Fighting black money rampant in the economy was one of the foremost objectives of this entire exercise. Cash component forms just 6% of the black money in the Indian economy and currency demonetization will target just this 6% black income. If various reports are anything to go by, most of this black income has been converted into white by depositing it in Jan Dhan accounts, depositing in individuals own accounts by breaking into smaller chunks, by exchanging for new currency notes through hawala dealers, by buying last-minute luxury items like jewellery and high priced mobiles, by paying advance wages to employees etc.

This is supported by the fact that almost the entire amount of Rs 14.18 lac crores in Rs 500 and Rs 1000 currency denominations lying with the public has returned to the banks. This implies that the dividend which the govt. has been hoping for by way of 2-3 lac crores not returning to the banking system has turned out to be a mirage.

However there have also been some positive impacts like one time removal of counterfeit or fake currency from the economic system. Some people argue that since black money has reduced, prices of black money intensive sectors like real estate and gold jewellery will go down. This remains to be seen. It will also be easier for the corrupt and black money hoarders to deal in Rs 2000 currency notes as compared to Rs 500 and Rs 1000 notes since higher currency value can now be carried with greater ease.

### **Terror Funding and Fake Currency**

This was another stated objective of the currency demonetization drive of the government. While initial reports suggest that terror related activities in J&K witnessed a noticeable halt in the days following the demonetisation drive, including, stone pelting by misguided youths. The demonetisation of old Rs 500 and Rs 1,000 notes had a “significant positive impact” on most “theatres of violence” in the country, including stone-pelting incidents in Jammu and Kashmir, the Rajya Sabha was informed by the Minister of State for Home Hansraj Gangaram Ahir said since illegally held cash forms a major chunk of terror funding, after the Centre’s note-ban decision on November last, most of the cash held by terrorists turned worthless.

He said demonetisation led to instant extinguishment of Pak-printed high quality fake Indian currency notes and also adversely affected the hawala operators. “As per reports of agencies, the demonetisation of bank notes of Rs 500 and Rs 1,000 denominations resulted in significant positive impact on most theatres of violence in the country including stone-pelting incidents in Jammu and Kashmir,” Ahir said in reply to a question. The minister said the demonetisation caused disconcert among the Maoists, who tried to minimise their losses by having the money deposited in the accounts of sympathisers or of simple villagers on the basis of coercion. Replying to another question, he said terrorist violence in Jammu and Kashmir has been sponsored from across the border.

Giving statistics, he said in 2017 up to July 23, there were 184 incidents of violence in Jammu and Kashmir in which 109 terrorists, 38 security personnel and 19 civilians were killed. During the same period in 2016, there were 155 incidents of violence in the state in which 86 terrorists, 31 security personnel and five civilians were killed, as per the reports.

### **People’s Acceptance**

Nihilent Analytics had recently conducted an online survey, for a period of 15 days, among teens and working professionals in two age groups- 20 to 30 and 31 and above. The survey was conducted among people from North, South, West and East zones of India.

According to the survey findings of Nihilent Analytics, a majority of 66% of people showed support for Modi's demonetisation decision while 22% were against the move. However, 12% of the people were undecided about their stand on the issue, pointing out the need for more measures to engage with citizens.

When asked whether the leadership was trustworthy to take the demonetisation decision to logical conclusion, the participants showed strong trust in leadership. About 65% of people felt that leadership is capable enough to take it to

completion while 21% felt that the leadership is not capable enough to take the demonetisation to logical conclusion. Similarly, about 65% of respondents felt demonetisation decision will help reduce black money, fight corruption and reduce funding of terrorism while 18% surveyed showed negative sentiment.

## CONCLUSIONS

From the above discussion, it is clear that the demonetization drive of the Government of India show a mixed impact on various issues. Infact, the move does not affect the economy as is expected and threaten by most of the experts and political parties. Many international institutions also predicted a temporary slowdown of the economy but in longrun, the decision will definitely going to be proved correct. Right now, the economy is not that much affected with the move of the government and the positive impact of demonetization as is expected by the government need some more time to assess.

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