

AN ANALYSIS OF EFFECTIVENESS OF DEMONETIZATION IN INDIAN ECONOMY

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Abstract: Demonetization means that RBI has withdrawn the old 500 and 1000 notes from the circulation. Demonetization was taken out in India on 1946 and 1978. The first and second demonetization was not found success. Third demonetization was introduced in India on 8th Nov 2016. The so called aim of demonetization was to stop the count of terrorism and for cracking down on black money. As it result into 86% of currency withdrawal from the public. It contributes into cashless economy. Indian Economy depends on cash. Half of the population is not using the banking system for monetary transactions. Lot of discomfort created for the general public and business enterprises. Some of the bad impact of demonetization was liquidity crisis, reduction of prices of agricultural products, job loss in textile industry. Interest rate was not reduced by RBI. It reduces private investment because of lack of money for investment; reduce consumption and government expenditure. RBI by printing money can introduce a new currency and leads to soothe some of the pain caused by demonetization.

Keywords: Currency, Demonetization, Economy, India.

Introduction: In India 90% of only cash accepted for transactions. Half of the population in India does not use banking system for monetary transactions. This cash transactions will help to flourish corruption. First time Reserve Bank of India printed Rs.10000 in 1938, and again in 1954 Rs.10000, Rs. 5000 and Rs. 500. According to investopedia demonetization means the acts of stripping a currency unit of its status as legal tender. The first demonetization in India was in 1946, when Rs. 1000, Rs.5000 and Rs.10000 notes were taken out of circulation by British.

These notes were reintroduce in 1954 and again demonetized in 1978. On 8th November 2016, third demonetization was introduced in India by Union Government ; with their objective to break the grip of corruption and black money. The Prime Minister announce this as a “surgical strike” against the black economy.

The stated objective of the third demonetization was

1. To curb the menace of fake currencies
2. To wipe out unaccounted and tax evaded money stored in such high value notes and
3. To prevent use of high denomination notes for terror financing. All these demonetizations were not found successes.

Objectives:

1. To make an analysis of pros and cons of demonetization.
2. Study the effects of demonetization

Methodology: It is purely based on secondary data. Data collected from various research journals internet and etc.

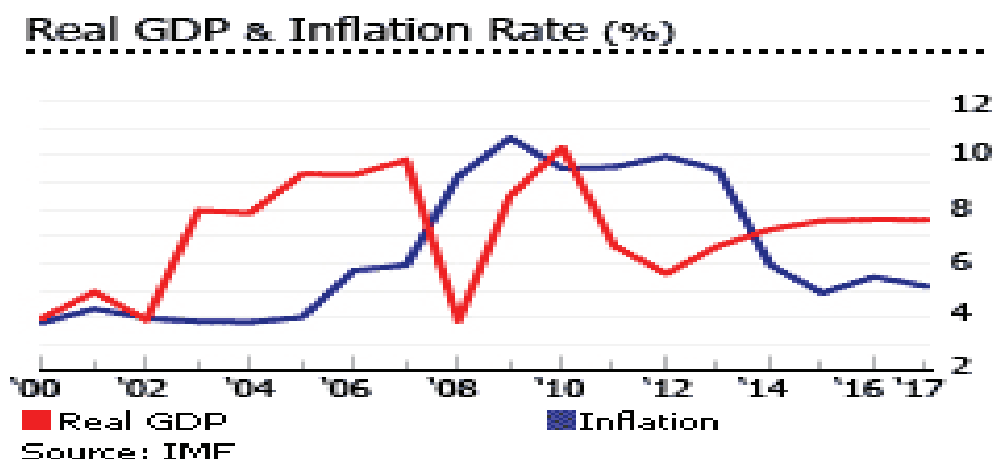
Limitation: Time is a limitation for the study.

Review of Literature:

1. Reshma S in her article “Effects of demonetization in India”, on Third Concept May 2017 issue opined that surprise announcement of demonetization will result into a shock in the economy and its argument to curb black money is an impression rather than the fact.

2. The editorial of Economic & political weekly November 11, 2017 Vol LII No 45 said that demonetization was an abysmal fiasco; the nation must be rescued from its ruling classes.
3. B A Thayammami in their article "Impact of demonetization on capital market" opined that recently it is found sudden bearish trend continuously in the technical analysis of the stock market.
4. Ashok K Nag in his article on Economic & political weekly November 26, 2016 Vol LII No 48 said that demonetization is only a minor bump, but it would not stop the onward journey of the chariot of corruption.
5. Sumanta Banerjee in her article named "Narendra Modi Bob Dylan and Demonetization" on Economic & political weekly November 26, 2016 Vol LII No 48 said that hypocritic jumla cannot fool the people for long and glib politicians cannot survive for ever as prime ministers.
6. J Dennis Rajakumar, S L Shetty in their article "Demonetization 1978 the present and the aftermath" on Economic & political weekly November 26, 2016 Vol LII No 48 said that elimination of current stock of unaccounted and tax evaded money does not imply that generation of such money is being stopped. It would only mean that a new set of players would replace the older ones, but the game would continue.

Demonetization and Digital Financial Services: Different banks and telecom operators had introduced mobile apps for easy accessibility of financial transactions through mobile. There is an increase in the sale of POS (point of sale machines). Volume of transactions using Rupay card has increased. Number of customers were opening up to pay premium online.



Retail inflation climbed to a 5 month high of 3.81% in March 2017, from 3.65% in January, While wholesale inflation eased to 5.7%, from 6.55% in January, according to official figures.

Impacts: Positive Impacts: It helps to track the people with unaccounted money who purposefully evade taxes. For sometime it reduce the use of black money for illegal activities like terrorism. If people disclosing their income the government will get more income that can be used for welfare of the society. Demonetization will likely result in making people adopt virtual wallets such as Paytm, ola money and etc. By demonetization deposits increase for the banks and it will reduce the circulation of large volume of counterfeit money.

Negative Impacts: It creates chaos and frenzy among the people. Printing new currency involve the cost; it should be borne by the government; if cost is higher than benefit, demonetization has no use. It is a period of suffering for the Indian poor. There is a fall in rabi crop due to farmers lack of access to ready cash to buy seeds. There is disruption in interstate trade caused by the inability of the truckers, the slump in GDP, are some among the many hazards. The common theme of these two demonetizations are respective governments' effort to curb black money.

Comparison of Demonetizations of 1978 and 2016

1978	2016
There was an Act(High Denomination Bank Notes Act)	It was not in 2016
The high demonetization notes formed just a minuscule fraction about .6 % of the total currency in circulation.	About 95% of such currencies were with the public
The demonetization notes were of Rs 1000,Rs 5000 and Rs 10000	It was Rs 500 and Rs 1000

Findings:

1. Demonetization will also temporarily curb the funding for anti-social activities.
2. No demonetization Act was passed in the current demonetization.
3. Scale down of all business for around two months(liquor, construction)
4. Replacement of old Rs 1000 by Rs 2000 in a short span of life adversely affect many enterprises and self employed people.
5. Money supply is expected to reduce for a short period
6. The overall demand is expected to be affected to an extend
7. The demand in the following areas are adversely affected, consumer goods, real estate and property, gold and luxury goods, automobiles
8. Price level is expected to be lowered
9. Real estate and property: prices in this sector are largely expected to fall
10. Effects on various economic entities face short term disruptions in facilitation of their transactions. These entities are agriculture and related sectors, small traders, SME, services Sector, households, Political parties, professionals like doctor, carpenter, utility service providers, and retail outlets.
11. The GDP formation could be impacted by this measure with reduction in the consumption demand.
12. This will increase the liquidity position of the banks.
13. Digital transactions will definitely see a substantial increase.

Suggestions: Demonetization has pros and cons; government has to go ahead with this only after analyzing it. Significant upgrade of banking and telecom infrastructure should be made as it would provide backbone for digital transaction.

Conclusion: The surprise demonetization undertaken by the government is a shock to the economy. Demonetization was done in an effort to stop the count of terrorism and for cracking down on black money in the country, especially in the real estate world. This could be a mechanism used to force a transition to cashless medium of exchange. Demonetization can at best be a temporary road bump but it would not stop the journey of corruption.

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