

Demonetization and Its Impact on Business and Economy

Senthamizhselvi A

*Research Scholar from VITBS, VIT university, Vellore, Tamil Nadu. You can reach me at
senthamizhselvi.a@2016.vitstudent.ac.in.*

Abstract: *Demonetization means the change of currency status as a legal tender, which means replacing old notes or coins in to new ones. The opposite of demonetization is remonetization which means restoring the demonetized currency as a legal tender. Demonetization which was made by the government was really a masterstroke. It helps in fight against corruption, black money, inflation and tax evasion. The main goal of demonetization was to remove the fake currency from the market which is used in tax evasion, corruption and funding in some anti-social activities. It is a surgical attack on black money. It helps to discourage cash dependent economy and to facilitate trade. In this paper, we shall discuss about how India faced demonetization, it has been more than few months Government demonetized 500 and 1000 rupees notes. It was a major decision which impacts on all sections of the society. People flocked the banks and stood in long queue in front of ATMs and banks to draw the money. Just like a coin has flip side, demonetization has its merits and demerits. The main advantage of demonetization helps the government to identify the bulk amount of unaccounted cash. It helps to find out the people who deposited in crores of rupees in their bank account as black money. This helps to put an end for black money which might induce to perform illegal activities. The demerit of demonetization affects the union budget 2017-18. It affects small business which may lead to financial losses. And the process of converting the old currency in to new one results in huge expenses to the Government. The main aim of the Government for demonetization is social engineering. It is a device of surveillance. It has affected many sectors such as communication, construction, banking, real estate, transport, retail trade, hospitality and other allied sectors. We discuss about how demonetization and other schemes boost the union budget 2017-18 and its impact on our country and economy as a whole.*

Keywords: *Black money, Demonetization, legal tender, social engineering, surveillance.*

JELCODES

Articles in economics journals are usually classified according to the **JEL classification codes**, a system originated by the *Journal of Economic Literature*. The *JEL* is published quarterly by the American Economic Association (AEA) and contains survey articles and information on recently published books and dissertations. The AEA maintains EconLit, a searchable data base of citations for articles, books, reviews, dissertations, and working papers classified by JEL codes for the years from 1969. A recent addition to EconLit is indexing of economics-journal articles from 1886 to 1968 parallel to the print series *Index of Economic Articles*. The JEL codes which are used in this paper are as under:

JEL: A,E ,G,G10, G11,G17,G18,H, H5,H6,H7,H26,H27,H71,H72,O,O13,O23

I. Introduction

Demonetization is an essential part of changing the old currency unit to new one. It occurs whenever there is a change of national currency. Before going to the topic deeply, we must have a clear idea about the concept of demonetization. On November 8th 2016, India's prime minister made an unscheduled announcement to the nation that all the Rs.500 and Rs.1000 bank rupee notes as invalid. It is effective from the midnight on the same day. The new issue of Rs.500 and Rs.1000 bank notes of Mahatma Gandhi series in exchange for the old notes. There are many reasons for this why the government of India suddenly took the decision to demonetize their local unit of currency. The major reason for this is to eradicate inflation, corruption and other crimes, tax evasion, counterfeiting, to discourage the cash dependent economy and to facilitate trade (said by our prime minister Narendra Modi). After the official announcement made by the government of India that the old currency was not to be in use, the Reserve bank of India's Governor Urjit Patel and Economic affairs Secretary Shaktikanta Das explained in press conference stated that the supply of new denominations of all increased by 40% between 2011-2016, but the new currency of Rs.500 and Rs.1000 bank notes increased by 76-109% respectively during the short span of time. This results of involve in fund terrorist activities against India. To eliminate such kind of activities the government of India took this decision before six months, the printing of Rs.500 and Rs.1000 had already been started. But the top officials and the central bank were aware of the move. But media had telecasted in October 2016 that the introduction of new Rs.2000 notes after the announcement of

RBI. This statement leads a great debate, because the reserve bank governor was Raghuram Rajan that time, while the new bank notes have the signature of newly appointed Governor, Urjit Patel.

II. Demonetization's History

The entire country faced the demonetization when Prime Minister of India announced on November 8th 2016, that all the Rs.500 and Rs.1000 will be invalid from mid-night. It is a sudden and unexpected attack to millions of Indians. But, except this other Rs.10, Rs.20 and Rs.50 notes is valid. And he announced Rs.2000 and Rs.500 notes will be available very shortly in short span of time. This demonetization does not happened first time in India, where as it happened first time in the year 1946-1978. It already had twice in India.

The first currency ban was happened on 1946, that time the high denomination note of Rs.1000 and Rs.10,000 was banned. It does not have huge impact on society, because these high denomination notes was not used much by common people often. It was used very rarely. Rs.500 and Rs.1000 notes were introduced in 1934, after four years Rs.10,000 notes was introduced. After few years, the notes were re introduced in addition to it Rs.5000 notes was introduced.

The second ban of currency happened in 1978, where all the Rs.1000, Rs.5000 and Rs.10,000 notes was removed from circulation. The main aim of this ban is to eradicate the black money from the country and to avoid the people those who are involving in doing ill legal activities that causes harm to the country. The similarities between 1978 and 2016 currency ban is to eliminate the black money and the main motive is to bring the progress of our nation and to generate the positive attitude among people. So, this demonetization act was implemented. It has been telecasted in all news channels and radios across the world. It was kept quiet confidential.

The major differences in 1978 and 2016 currency ban is to remove the storage of currency in the form of black money. No single person has the ability to store the currency in the form of black money too long time. This ban gave a big shock to the entire nation. In 2016 ban, it was found that there is a big buzz that smaller denominations of Rs.50 and Rs.100 will also be replaced by new designs and features. This incident reminds us the early 1950's where huge people rushed towards the bank to withdraw the currencies because of rumors.

AFFECT OF DEMONETIZATION

It is the process of devaluing the currency to zero. The major sector which affected by demonetization is small retail shops which does not have even swiping machines, much flow of cash including the small vendor who sells vegetables and fruits on the street. Next to it affects hardly the real estate sector. It is the one depends on entire cash. People who were ready to put their investments before November 8th were just stopped their idea of investing in real estate because this will have surely a decrease in price because of demonetization.

EFFECTS OF DEMONETIZATION

Our prime minister taken the step to cull out the demonetization from our country soon. So suddenly he announced that the 500 and 1000 rupees notes are not valid from November 8th midnight. It helps the people lot of not involve in ill legal activities such as cash seize, money laundering etc...black money holders are trying to covert it in to white money. In many countries like Gujarat, Delhi the rate of gold has increased from nearly 20% -30%. A huge bag full of notes were dumped and thrown on the river Ganga near mirzapur and the money was floating on it. Authorities of Sri Jalankanteshwarar temple at Vellore found 4.4 million rupees from the temple Hundi after the concept of demonetization announced by our prime minister. Many people are involved in multiple bank transactions to convert the black money in to white money. so in order to avoid that government had announced that on November 17th 2016, the exchange transactions limit has been reduced to Rs.2000 and it can be made only once by person. In order to avoid black money, people having different accounts in various bank branches under same name cannot take money twice in a day, all this has been stopped by the government in order to have a legitimate money. It had affected the railway ticket bookings. On November 9th, 2016, people booked for 1A 27,237 and 69,950 were booked the tickets under 2A. Later on November 13th 2016, 1209 were booked under 1A AND 16,999 were booked the tickets under 2A. It was reduced after the demonetization concept came in to effect. The railway ministry and the railway board announced that only cancellation and refund of tickets can be done if it's value above Rs.10,000 by any means which involves cash. The railway board announced many restrictions to book or cancel the tickets, so the number of people booking the tickets came down after November 9th, 2016. The government allowed to pay taxes and advanced taxes with the demonetized notes of Rs.500 and Rs.1000. this is the only benefit that provide by the government for the people to pay the outstanding taxes. For that payment of taxes also they fix some dates to make the currencies valid till that particular day.

POSITIVE IMPACT ON DEMONETIZATION

World Bank chief executive officer Kristalina Ivanova Georgieva said in Hindustan times: that Prime minister of India's idea of ban high value currency denomination will have a positive impact to wash out the corruption in the nation. She also said that this move caused some difficult for the people to live in cash flow economy at present, but it will make a free independent, clean and modern digitized economy. She compared the demonetization of prime minister's decision with European Union, which is facing high denomination bills over a long time. She also said that it will help the financial inclusion programmes, digital payments and direct subsidies to help the poor. She appreciated that India is bright country in today's global economy and she visited the biggest slum area people there willing to pay more for improved services and better live. She also said that people have much aspirations here. On November 8th, 2016 midnight our country lost nearly 86% of its monetary base due to sudden announcement made by our Prime minister that all the Rs. 500 and Rs.1000 notes was invalid. All the social medias, public appreciated the sudden thought of our prime minister which made our country to pull out the corruption, terror financing and counterfeit the currency. The reputation and fame of prime minister has enhanced due to the idea he brought to the nation. The thought of demonetization was good but this does not totally demolish the fraud activities. All invest the black money in the form of purchasing the jewels, real estate etc... The practice of keeping the black money affects the GDP of our economy.

ADVANTAGE OF DEMONETIZATION

- ❖ It helps the government to destroy corruption, tax evasion and black money.
- ❖ It helps to slow down the unaccounted cash which was kept by the public in their bank accounts.
- ❖ It helps to put an end to the people who involve in doing ill legal activities such as gambling and had an idea to earn black money, and use it for some other purpose as savings, or put it in other major investments such as gold, real estate and involve in other unwanted social evils.
- ❖ The biggest benefit of demonetization is that people deposit their other incomes in bank accounts; this is used to provide a good amount of tax, infrastructure, hospitals, educational institutions, and many facilities for the poor and helps for the betterment of the society.
- ❖ People deposited more than 3 lakh crore rupee in their bank accounts, this helped the government in order to eliminate the parallel economy.

DISADVANTAGE OF DEMONETIZATION

- It mainly affects people in rural areas where there is lack of ATM machines, people want to stand in long queues in front of banks and ATMs to withdraw money for their daily usages.
- It affects the small business firms to incur huge financial losses temporarily.
- Due to inadequate supply of notes, people faced lot of problems and issues, they face difficulties in getting rid of this, due to demonetized notes.
- The process of printing new currency notes instead of old currency involves much cost; this cost has to be bear by the government. If the cost of printing the new currency is higher than old currency, than there is no use in introducing the concept of demonetization in our country.
- People who invest their money in the form of other assets like real estate, gold and so on does not affect from demonetization. They does not have utilized the cash as black money.
- New 2000 rupees notes looks like toy notes, where as old notes are really superb and attractive by nature.
- The two series currency notes should not be changed at the same time, as per RBI Act, 1934, so it is ill legal activity.
- It is ill legal to use Devanagiri numeral in notes instead of using Devanagiri Script.
- Some co operative banks do not allow public to withdraw their legal limit also and it does not accept the demonetized currency.

POSITIVE AND NEGATIVE EFFECTS OF DEMONETIZATION

It is a *short term pain and long term gain* said by the government of India. Short term pain refers to negative effects. The pain which felt by our country at present is as under:

NEGATIVE EFFECTS

- ✓ RBI in its statement declared that on December 13th 2016, the GDP trend has moved downwards to 0.5%, from 7.6% to 7.1%. our GDP is 125lakh crore, in quantitative terms it got reduced to 62500 crore according to some economists.
- ✓ Joblessness has been reported in many sectors such as agriculture, small and medium manufacturing units, unorganized sectors like retail, real estate etc...
- ✓ Revenue statistics of November and December 2016 can quantify the loss.
- ✓ Loss of revenue in the form of indirect taxes such as VAT/CST to state and central Governments follows recession in demand.

- ✓ The note ban hits very hard to the state Andhra Pradesh at nearly 40% says minister.
- ✓ More than 100 deaths caused due to the currency ban in our country, made a huge human and social loss.
- ✓ Loss of productive man hours caused by long queues at banks and ATMs.
- ✓ If cash and demand recession is likely to continue after the month of December 2016, public feel restless and for this reason many political parties started to suffer.

POSITIVE EFFECTS

Government of India imposed all of a sudden a hard and fast rule as the Rs.500 and Rs.1000 currency has not been valid. It seems to be very difficult for the citizens to accept it suddenly, but it helps a lot for the future benefit of the nation. This has a positive impact for the betterment of society. So, even it is very hard to bear, all citizens of our country should keep in mind about the future growth and progress of the country.

Black money:

It shakes the base of Indian economy. The supply of black money in the country has been stopped at a stretch by the Government of India. With this sudden move of Indian government all black money must be deposited in their own bank accounts or other's bank account or it should be demolished.

Economy:

If the black money from the country has been cleared, then the clean/white money will turn the economy good. It will help to reduce the interest rates and lowers the income tax. It improves the nation's GDP.

Strengthen Indian banking system:

More amounts are being deposited in savings and current account due to this demonetization, this will increase the liquidity position of the banks, which can be utilized for lending purpose.

Note bank politics:

The ban of old currency notes of Rs.500 and Rs.1000 announced by the prime minister of India made a great shock in all the state elections like Gujarat, Uttar Pradesh, Punjab and Goa. For all the political parties, black money served as a base and lifeline. This decision made by the prime minister of India spoiled the entire belief of political parties who had decided to purchase the votes from the public for exchange of notes.

Real estate cleansing:

It is the sector which always depends on black money. According to an estimate 40% of real estate in Delhi (NCR) are in black. This need to be changed by the concept of demonetization.

Hawala transactions:

It is the method in which the money can be transferred without any actual movement of the money. It is the process of terror financing and money laundering. The rackets runs on the basis of hawala is through black money. After the demonetization came in to effect this kind of transactions has been vanished and comes to an end. According to India Today report one of the hawala operators in Mumbai demolished the currency notes worth Rs.500 crores.

Counterfeit currency:

Our country has fake currency within and outside. Demonetization is the way to counterfeit the currency. It helps to identify the real value of Indian currency. So by demonetizing the highest currency notes our country could abolish 100% of fake currency out of total circulation in a single stroke. A study conducted by Indian Statistical Institute (Kolkatta) on behalf of National Investigation Agency suggest that Fake Indian currency notes amounting to Rs400 crores are in circulation in the country at any given point of time and in that Rs70 crore are faked notes are to be found in Indian economy every year. The estimation is based on recovery and seizure by various agencies. But the actual figure must be larger. One India report quoting an Intelligence Bureau dossier, fake Indian currency floating is Rs.12lakh crore in Indian financial system. Most of the fake currency in India was Rs.500 and Rs.1000. The total currency circulation in India is Rs.17 lakh crore.

Pakistan has been printing fake Indian currency as its government printing press in Quetta and security press in Karachi. The enemy nation funnels the counterfeit currency through the frontier of Jammu & Kashmir and via India's porous border with Bangladesh and Nepal. The decision made by the prime minister of India is that replace the old Rs.500 and Rs.1000 in to new currency. It has been stalled the circulation of counterfeit the Indian currency. Experts said that the new currency must have come with additional security features which are not possible to replicate. So this made the Pakistan no option but to shut the shops of its doing fake Indian currency.

Terror financing:

Fake currency circulation in the country worked through various routes which was done by hawala transactions. It involves large network of people who involves in gambling, smuggling of drugs, opium etc....this activity is done by terrorists through hawala transactions. Counterfeit and hawala transactions process stopped the entire terror financing has been stopped in our country.

Maoism:

According to Maoists, black money is the oxygen to breathe for them. They manage to raise Rs.300 to Rs.400 crores annually through donations, levy and extortions. By introducing demonetization by Government of India all this came to an end. All the ill legal money are reduced to paper scrap.

IMPACT OF DEMONETIZATION IN VARIOUS SECTORS

It affects various sectors like agriculture, real estate, commodity market like gold etc....

Agriculture:

It is the last stage we are in the demonetization as announced by our Government of India. It has been at the crucial stage in the agricultural operations. The harvest of kharif was almost over and the Rabi sowing was just begun. This sector shows a growth forecast of atleast 4% in 2016-2017. The agricultural growth is unlikely to be affected by demonetization. However, it hardly hits the farmers. The kharif foodgrain production was increased from 124 million tones in the year 2015-2016, to 135 million tones in the year 2016-2017. It increased to 9 % when compared with previous year history. There is a huge increase can be found in the production of pulses (57%). Food prices showing a decline. The overall food inflation based on consumer price index has come down from 6% in December 2015 to 2% in November 2016. Rabi and kharif production started to increase in the last week of October and extends till December.

As per the latest estimates, there is 10% decline in perishable commodities like fruits and vegetables.

Real Estate:

This sector has always been watched and it is most sensitive sector in the Indian economy. It reflects the changes in the economy policy changes. It reflects without a doubt when the stock market shrinks and interest rate cuts. Due to this demonetization there will be delay in delivering on going projects. This is the third time demonetization concept was faced by common public, which was made by Indian authorities. This sector definitely be affected by demonetization exercise, as it has traditionally seen a high involvement of cash transactions and black money. The overall impact of the sector is from the past one year there is a positive and potential changes because of introducing the real estate regulation act (RERA), benami transaction act and finally now the demonetization act the sector lost its historic taint and be more transparent.

Gold:

On November 9th 2016, in Mumbai jewelers sold 15 tonnes of bars and gold worth 5000 crores, after the currency ban of 500 and 1000, said surendra Mehta national secretary of India bullion and jeweler's association (IBJA). It has 2500 jewelers registered with it across India. After demonetization of currency declared there will be a heavy decline in sales of gold bars and ornaments in jewel shops.

Impact of Demonetization and how it boost the union budget

Government's preparation of union budget 2017-2018 nearing its climax and its expectations are being raised. Predictions are made. Whatever may be the predictions and hope for this budget cannot be analyzed without the impact of demonetization on it. It has already affected many industries and its financial impact has mostly been adverse for them. Communications, construction, real estate, transport, retail, hospitals and other allied sectors have been affected by demonetization. Many government officials have reported that revenue collection in the form of tax had come down due to demonetization.

All this will be seen in the union budget. Lets see the adverse effect of demonetization affects the economy in preparation of budget.

- Commercial vehicles and two wheelers shows a decline in sales by over 10% this year when compared to last year.
- Retail and jewellery sector shows a poor performance which affected the collection of factory duty tax negatively.
- The government has also partially postponed its plan to hike wages of its 10 million employees and pensioners to bring down its expenses.
- The sale of stake in big companies made the government to miss the revenue target of Rs.56,500 crores big margin.
- Commercial tax collection was Rs.1267 crores in October, came down to Rs.1167 crores in November and further fall in December as 1094 crores.
- The government had set a revenue target of Rs.3300 crores to be collected through excise duty. However, high authorities have predicted it is most likely to miss due to liquor consumption in post demonetization.
- In the same way, mines department is going to miss the revenue target of Rs.6700 crores for current fiscal years by a huge margin as it has collected only Rs.2900 crores by the end of December.

- Own tax revenue collection fall by 11% in December and it may fall further in the month of January and February.
- Infrastructure and other social sectors affect by demonetization, which affect the revenue generation in making delay in further projects.
- Fiscal year's economic growth rate is expected to go below the previous year revised estimate of 7.1%.
- It has estimated by the Government that only 5-10% of cash will be worthless which raised the question of entire exercise which was billed as a attack of parallel economy.
- The GST (goods and service) tax which affects the business largely, where the objective is to replace all the tax levied by the federal government and the states with one central tax.

What the economy has gained financially from this demonetization

- During the fiscal year, the government and other related efforts have resulted in overall increased tax collection.
- VAT and CST collection till December has been reported to be Rs.8759 crores for the ongoing fiscal year which is 13.3% higher than the collection during the same period last year. The fiscal deficit is lying 2% which is comfortably below the permissible limit of 3.5%.
- Another positive effect of demonetization is observed as the state debt to GSDP ratio which is currently at 14% is well below the permissible limit of 25%.

Demonetization and other schemes boost the union budget 2017-2018.

- ✓ Government launched this scheme on November 8th 2016, in order to achieve several objectives. The major objective was to demolish the black money and parallel economy.
- ✓ After the concept came in to effect, many common people started to deposit their money in bank accounts.
- ✓ The main motive of government is to avoid corruption and make our country free from all ill legal activities.
- ✓ It is expected that 5lakh crore rupees will be vanished from the system, but later on the estimate was revised to 2 lakh crore rupees.
- ✓ This scheme would have to make our country a digital economy.
- ✓ All the government schemes came in to effect in order to make the people to use all kinds of electronic systems well in order to make our country a digitalized nation even those who are living in rural areas have to know the idea of using all such cards like debit and credit card, etc.....

Impact of budget

- ❖ The government could add this amount to the budget and spend on infrastructure. In this the budget numbers remains unchanged with higher allocations matched by spending.
- ❖ The government will have expenditure commission for the next year in the form of pay commission and arrears.
- ❖ There can be some programmes for low income groups.
- ❖ Another possibility is to increase the oil price. If it so happened there would be pressure on the subsidy levels in the financial year 2018.
- ❖ States have to get compensated for GST.

III. Conclusion

This paper reflects the policies and strategies that the government has been pursuing in the context of recent initiatives or need to take up in future, in order to address the further issue of demonetization, black money and corruption in public life. Demonetization process is like a two face of a coin. It has both sides, positive as well as negative. The positive will benefit the nation and the other will create some temporary and long term problems. A single person cannot fight for the nation's good. Everyone should cooperate and put hands together in abolishing the black money and parallel economy.

Benefits for the nation are as under

- To stop the fake currency used for terror activities.
- To eliminate the black money and corruption.
- Move towards digitized economy so that it brings transparency in the system and allows the foreign countries to invest.
- Digital payment mode is easy to monitor the cash flow in nation.
- Less chance of avoiding the taxes.

Drawbacks to the nation are as follows

- Losses to the small vendors trade because of cash crunch(article 19 of Indian constitution)
- Many people died due to hospitals denied to accept the old notes and hesitate to perform the treatment.
- In rural and hilly areas, many people do not have bank accounts and ATM cards.
- Lots of daily wages labours removed from the work.

In order to bring more transparency and accountability in the system, it is necessary to go with more modern and digital economy. But we can't fully depend on only digital economy for all purpose; we need some percentage of money for our daily use. By this, we cannot say that India is a poor nation, Infact India is amongst the richest nation if stashed black money is brought back and converted white money and fresh generation of black money is put to an end.

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