

Impact of Demonetisation

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ABSTRACT

Demonetisation is the act of undressing a currency unit of its status as legal tender. It happens whenever there is a change of national currency: The present form or forms of currency is pulled from circulation and retired, often to be replaced with new notes or coins. Sometimes, a country entirely replaces the old currency with new currency. The present article discovers the impact of demonetisation.

Keywords: Demonetization, Black Money and Cashless Economy.

1. INTRODUCTION

In 2016, the government of India decided to demonetize the 500- and 1000- rupee notes, the two biggest denominations in its currency system; these notes accounted for 86% of the country's circulating cash. These notes were to be deposited in the banks by December 30, 2016, while certain restrictions were placed on cash withdrawals. In other words, restrictions were placed on the convertibility of new currencies and bank deposits. The aim of the action was to curtail the black money running as shadow economy and to stop the use of counterfeit cash to fund illegal activity and terrorism.

2. RESULTS ON DEMONETISATION

RBI data states that out of Rs 15.44 lakh crore worth of currency notes that were taken out of circulation, Rs 15.28 lakh crore have returned to the system and around Rs 16,000 crore is yet to be deposited back to banks. RBI report also says that about 8.9 crore units of the demonetised Rs 1,000 notes worth Rs 8,900 crore, had not come back into the system. There were 632.6 crore pieces of Rs 1,000 currency notes in circulation on the day of demonetisation. This reveals that just 1.4 per cent of Rs 1000 notes did not return after demonetisation.

3. IMPACT OF DEMONETISATION ON VARIOUS SECTORS

Agricultural sector

Demonetisation has affected the many parts of the economy and in particular the agriculture. The government has provided support to the farmers to use the old denomination currency for purchase of agricultural inputs so that their operation may not get affected but inadequate spread and small network of government input agencies and insufficient penetration of formal credit institutions and inadequacy of cash in most of the rural bank branches were some of the pitfalls of the government that has affected the agriculture.

However, the level of production and productivity and monsoon in 2016-17 was recorded higher than 2015-16. Though many of the operations linked to agriculture have affected in short term, but the macroeconomic picture of agriculture doesn't show any slump in growth.

Banking Sector

Banks are major institutions affected by demonetization. Banned denominations were ploughed back and allowed the people to exchange with the banks. While exchanging, it disturbed temporarily and influenced its regular operations. Lending growth of the banks is considerably less even after demonetization and its impact of growth in the amount of public deposit. Bank Employees were put under pressure and overtime work environment.

Real Estate Sector

The demonetization has caused abrupt stoppage of work in many projects. The payments, especially to workers, were only by liquid cash. The sudden restriction on withdrawals led the contractor unable to cope with the labour pressure. Work at SARE Homes' residential projects, spanning six cities, has slowed dramatically as migrant workers, who are out of cash and have no bank accounts to draw from, have little choice than to return to their home villages.

According to Getamber Anand, President of Indian Builders' Association CREDAI, all the projects nationwide had been hit and estimated that roughly half of the migrant workforce, numbering in the low millions, had left for home.

According to Ashwinder Raj Singh, CEO, Residential Services, JLL India, "poor sales leading to almost flat prices, heavy liquidity challenges and high unsold inventory have all colluded to keep real estate sector away from fulfilling its potential and provide necessary residential stability to average citizens"

FMCG

FMCG companies are already staring at a 20-30% fall in sales after the note ban and much of it is coming from rural India. Rural markets account for 40-45% of revenue for all major FMCG focused companies.

Most equity analysts expect FMCG sales to drop 35-40% over the next 2 quarters. The only silver lining is the fact that many FMCG companies have managed to collect "pending pay-ins" (collection dues) from powerful wholesalers in old Rs 500 and Rs 1,000 notes.

Automobiles

There is a plunge in the sales of two-wheelers, commercial vehicles and luxury cars, where distribution channels are primarily in cash. After demonetisation, automobile sales fell by 19%, the steepest dip in the last 16 years as a result of weak consumer sentiments and cash crunch. To offset the impact, manufacturers through dealers and finance companies have started offering lower interest rates and zero down-payment to push sales.

Tourism and Hotel Industry

The small to medium tour & travel and hotel business in various cities of India have been severely affected by the demonetization move. Most of the tour & travel and hotel owners think that the move is not beneficial at present but

surely in the longer run it will benefit their business and most of the small to medium tour & travel and hotel faced huge loss of revenue in the initial weeks but the large scale service providers they are not much effected due to demonetization because they are already using the online transactions and plastic money in their business.

4. ADVANTAGES OF DEMONETISATION

Elimination of counterfeit currency

It is not rocket science to understand that counterfeit currency is generally circulated in highest denomination notes to impact most. So, by demonetizing the highest currency notes India could almost eliminate 100% fake currency out of circulation in one stroke.

Abolish black money

People having black money generally keep their black money in highest denomination currency notes. This step would abolish black money from the economy as the owners will not be in a position to deposit the same in the banks.

This step would make black money kept in cash which generally used to create chaos and terror or is lying with terrorists, Maoists, naxalites, scrap.

Tax Collection

Money deposited in the bank during demonetization can be taxed especially if the affected parties were trying to evade taxation by keeping hard cash.

The move to digital currency

Pushing India towards becoming a cashless economy was another reason that demonetization was publicized for. People turned towards digital transactions for everything from buying groceries from a road side vendor to paying utility bills during the time of demonetization. However, as the flow of cash into the economy began to increase, the use of these apps and digital wallets saw a slide once again.

Reducing illegal activities

Money used to fund illegal activities such as terrorism and drug trafficking will be rendered useless. Hence, the government can use demonetization policy to trace money that has been made from illegal activities such as drug trafficking and theft since such individuals are faced with only two options: either deposit the money with the bank or be left with currency that has no value.

Reduction of lending rates

Availability of cheap deposits in financial institutions means that people can borrow money at low interest rate.

Long Term Benefits

A few might criticize this move at present, but it will bring multiple long-term benefits for the nation's economic health. This entire exercise might be slightly discomforting, but demonetization will definitely have long-term benefits and implications.

5. DISADVANTAGES OF DEMONETISATION

Demonetization is not all beneficial and even proponents of demonetization acknowledge that it does have its disadvantages. A few of them are outlined below:

Little cash in circulation

Cash crunch is a major disadvantage of demonetization due to the unavailability of small currency denominations, an issue which makes it difficult to make small purchases.

Inconvenience and annoyance to the public

Sometimes, demonetization can be very inconvenient. For example, sometimes the government will remove certain denominations of bank notes from circulation but keep others. It can be annoying when smaller coins are removed from circulation and you do not have enough change. Further, queuing up in banks to deposit money or exchange currency can be inconveniencing.

Slowdown in Economic Growth

Economic growth will experience a period of lull due to business disruptions, at least in the short term.

ATMs have to be re-calibrated

ATM machines have to be re-calibrated to accommodate the new currencies. It will result in additional costs for banks and also inconvenience customers.

Short term financial crisis for poor people

If people adopt a new currency and this currency is not a successful one, then it can cause a financial crisis for everyone who is involved. Even a small change in the value of everyday items, or even a small amount of confusion about whether a currency is valid can mean a lot of hardship. As such, demonetization can increase and exacerbate inequalities within society, at-least in the short term.

6. CONCLUSION

Demonetization is a major tool used by central government to fight against black money, corruption and money laundering. In the same path, it influenced and brought changes in all the corner of the economy. . However, before any demonetization program is carried out, it should be carefully though through and its impact on the poor should

be considered. In this way, demonetization can be a chance for a fresh new start, or it can be something that causes unnecessary confusion for a country.

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