



Demonetization in India: Impact and perception of people

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Abstract

On the 8th of November, 2016 when the sun had descended below the horizon and the light of day had completely faded, when people were returning back home from a long day at work, a misty light of a new economy was brewing over the country. All ₹500 and ₹1000 banknotes of the Mahatma Gandhi Series ceased to be legal tender in India from 9 November 2016.

The government claimed that the demonetization was an effort to stop counterfeiting of the current banknotes allegedly used for funding terrorism, as well as a crackdown on black money in the country. The move was described as an effort to reduce corruption, the use of drugs, and smuggling. However, in the days following the demonetization, banks and ATMs across the country faced severe cash shortages.

Since our economy is an under banked economy, demonetization move, would no doubt cause a severe social experiment, across the segment of our population. This study is to know the impact and the effect of demonetization on OBCs (Other backward Classes) in India. We've heard that due to sudden announcement of demonization many youths have lost jobs, people young and old died as a result of standing in the queues, the shock of having lost their money or some proximate reason, whose ultimate cause lies in the unprepared and ill-thought-out manner in which the demonetization has been carried out. It not only has the negative impact on the lives of people rather it also has its positive side such as digitalization, tax on informal savings, tax on black money etc.

Keywords: Economy, demonetization

Introduction

1. Meaning of Demonetization

Demonetization is an act of cancelling the legal tender status of a currency unit in circulation. Anticipating positive changes on the liquidity structure as whole, nations often adopt Demonetization policy as a measure to counterbalance the current economic condition. Countries across the globe have used Demonetization at some or the other point to control situations such as inflation and to boost economy. In November, Indian government banned the high denomination notes of Rs.1000 and Rs.500 as move to curb counterfeiting and money laundering.

Demonetization has been a radical, unprecedented step with short term costs and long-term benefits. The liquidity squeeze was less severe than suggested by the headlines and has been easing since end-December 2016. A number of follow-up actions would minimize the costs and maximize the benefits of demonetization. These include: fast, demand-driven, demonetization; further tax reforms, including bringing land and real estate into the GST, reducing tax rates and stamp duties; and acting to allay anxieties about over-zealous tax administration. These actions would allow growth to return to trend in 2017-18, following a temporary decline in 2016-17.

2. History of Demonetization

Prime Minister Narendra Modi shocked the country on November 8 by declaring that the Rs 500 and Rs 1,000 notes would no longer be accepted as legal tender after midnight. Conversely, coins and notes with smaller denominations—Rs. 10, Rs. 20, Rs. 50, and Rs. 100—would still be legal. He also said that new notes worth Rs 500 and Rs 2,000 would be issued soon, which made millions of people very anxious. There have been two previous

instances of demonetization: in 1946 and 1978. The First Prohibition of Currency: The Indian government stopped issuing Rs 1,000 and Rs 10,000 notes in 1946. Because the majority of people did not own these high denomination notes, this measure had little effect. However, in 1954, both denominations were brought back into circulation along with the Rs 5,000 note. In 1934, the Rs 500 and Rs 1,000 notes were introduced, and in 1938, the Rs 10,000 note. The Second Ban on Currency: The announcement by Prime Minister Morarji Desai in 1978 was to remove the Rs 1,000, Rs 5,000, and Rs 10,000 notes from circulation. Fighting the spread of black money in the economy was the main goal of this prohibition. Similarities Both Morarji Desai's and Narendra Modi's demonetisation initiatives sought to eradicate black money from the economy between the 1978 and 2016 bans. Modi made the announcement in a nationally televised speech, while Desai's administration saw the passage of the High Denomination Bank Notes (Demonetization) Act. The following day, banks were forced to close as a result of Desai's radio announcement. In both cases, the measures' specifics were not made public until after the announcements. Disparities in the Prohibition: The 2016 demonetisation was distinguished by a more thorough public outreach and an immediate economic impact in contrast to the previous prohibitions.

History is a great teacher and yet we fail to learn. The demonetisation of the 1,000-rupee legal tender has been done twice earlier. It has been done now for precisely the same reasons for which it was done earlier. In 1978 it was demonetized. It was reintroduced in 1998 to facilitate the cash transactions of the public as the value of the rupee had depreciated substantially. However, the black sheep among us always have insidious designs towards policy pronouncements meant to facilitate the normal public. Why

hoard currency? It is said that coins were given a round shape because money is meant to roll. If so, why hoard it? It is thus evident that anyone hoarding currency notes is not doing it for philanthropy!

3. Reasons of Demonetization:

- Demonetization was a bold and revolutionary action taken by the government of India to curb black money and one that will have the deep impact on the parallel economy in the country.
- Fake Currency Notes have been wasted by the demonetisation. Withdrawing highest currency notes out of the economy will have a serious impact on the fake currency syndicates, thus putting an end to the terror funding in Jammu and Kashmir, Naxalite hit states and North-eastern states. The fake currency with racketeers has been left in vain, and new currency notes with high security; making a counterfeit impossible.
- Demonetization's motto was to encourage the cashless/digital economy. More and more cash-less or less-cash transactions will lead to more disclosure of income which will increase the direct tax collections.
- This step actually made money with Maoists worthless. As reported Maoists had hoarded over Rs.7000 cores with them at Baster in Chhattisgarh. All such currency is now nothing but pieces of papers.
- Though demonetisation has negatively impacted sectors such as real estate and property, construction, and household consumption in general, it is believed that long-term benefits for GDP growth will outweigh the short-term transitional impact.

4. Impact of India's Demonetization on the Economy

Financial Markets: Upadhyay and Suvarna (2018) examined the effects of demonetization on the 30 stocks included in the S&P BSE Sensex index. Utilizing daily closing prices of the securities from February 8, 2016, to August 8, 2017, their research identified anomalies in the returns. Through the application of a Durbin-Watson test, the statistical analysis concluded that demonetization did not have a significant impact on the S&P BSE Sensex.

Agriculture Sector: The agriculture sector, despite its informal nature, demonstrated notable resilience in the short term. Farmers encountered challenges related to productivity and employment; however, they effectively utilized family labor to facilitate recovery. Although prices for products like tomatoes and bananas declined, this was primarily attributed to an increase in supply. The combination of heightened supply and reduced demand led to a rapid accumulation of waste among perishable fruits. In major urban areas such as Nagpur and Baroda, the total waste reached 50 million INR, equivalent to approximately \$713,400 (Chauhan, 2016). In summary, while the agriculture sector faced immediate obstacles, it began to recover by March 2017. With the support of government initiatives and the adoption of digital technology, farmers were able to stabilize their livelihoods.

Banking Sector: Demonetization resulted in a significant influx of cash into the banking system.

Following this event, financial institutions experienced an increase in deposits. Agarwal and Reddy (2018) categorize the effects of demonetization on the banking sector into four distinct areas: an increase in deposits, a reduction in the cost of funds, heightened demand for government bonds, and a decrease in lending volume. As a result, banks were able to enhance their deposit levels due to the substantial inflows.

Impact on cash/money: To assess the effect on GDP, it is essential to first determine how demonetisation influenced the cash supply. Evaluating the impact that has already taken place poses challenges, as the actual amount of cash in circulation from November 9 to December 30, 2016, was contingent upon several factors, including: - the continued use of old currency notes for transactions; - the liquidity of the new Rs 2000 notes, meaning whether individuals and businesses could effectively utilize them for transactions; - the extent to which cash, whether old or new, was not returned.

Impact on GDP: It is essential to first comprehend the analytics surrounding the short-term effects of the demonetisation shock. Demonetisation can be characterized as follows: - It represents an aggregate demand shock, as it diminishes the money supply and impacts private wealth, particularly for individuals possessing unaccounted funds and real estate. - It serves as an aggregate supply shock to the extent that cash is a vital component for economic activities, such as when agricultural producers need cash to compensate their labor force. - It also constitutes an uncertainty shock, as economic agents encounter unpredictable factors related to the effects and duration of the liquidity shock, along with potential policy responses, leading consumers to postpone or curtail discretionary spending and prompting firms to reassess their investment strategies.

Increased Saving: As a consequence of demonetization, individuals are likely to prefer depositing their cash in banks instead of keeping it at home. This shift will facilitate increased savings.

Lower lending rates: Currency demonetization results in the transfer of money from individuals to banks and financial institutions. Consequently, this enhances the circulation of money. As a result, the cost of funds decreases, which in turn leads to reduced lending rates.

Better economy: An increase in the amount of cash held by banks results in a greater circulation of money within the economy. Consequently, the government collects more tax revenue, enabling it to initiate additional development projects. This ultimately contributes to an improved economic performance.

Curbing anti-social activities: Typically, cash serves as the primary means of conducting transactions related to anti-social activities. Consequently, demonetization serves to limit these activities. It compels those engaged in such actions to seek methods for disposing of the old currency. As a result, there is enhanced oversight of unaccounted funds within the economy.

Reducing counterfeit currency notes: Banks verify the authenticity of old notes to determine whether they are genuine or counterfeit prior to their acceptance. This process enables the government to eliminate counterfeit currency from circulation.

Positives Impact of Demonetization on Indian Economy

- Prime Minister Narendra Modi on a single stroke has choked the black money.
- This demonetisation has proved to be a turning point for the economy by cleaning-up the black money which in turn has brought more borrowings to the treasury, improved inflation outlook and increased GDP of India.
- Modi's demonetisation moves reduced the flow of unaccounted money into the real estate sector. This will help curtailing the use of black money in real estate sector which in turn result in the reduction in the prices of land and property.
- Demonetisation was a big thrash to the hawala racketeers. In Hawala money is transferred without its actual movement. Hawala had become the route to facilitate money laundering and terror funding. Hawala rackets run on black money. The sudden withdrawal of black money out of the economy was a surgical strike to hawala operations. Destruction of currency notes by hawala operators have also been reported.
- Demonetisation was a mighty blow to the counterfeit Indian currency.
- The main source of Terror financing is through counterfeit currency and hawala. All channels of are now closed with the control in the circulation of counterfeit currency and hawala operators.
- Maoist sympathizers have declared Modi's demonetization move as "undeclared financial emergency". There are reasons for it. Currency ban proved to be a serious attack on the Maoists movement.
- Stone pelting has reduced in Kashmir because of note ban. No stone pelting has been reported in Kashmir since the withdrawal of highest currency notes from the economy.

Negatives Impact of Demonetization on Indian Economy

- Demonetisation gave rise to liquidity problem as people found it difficult to get sufficient amount of cash to fulfil their basic needs.
- Most of the population who constitute the lower middle and lower class uses currency to meet their daily transactions.
- Cash shortage adversely affected the consumption behaviour of the people in India.
- Withdrawal of highest currency notes reduces the growth rate of the economy. Demonetisation reduces consumption pattern, income, investment etc. This may bring a slowdown in India's growth rate as the liquidity crisis itself may last three-four months.
- Deposit of the bank may increase in short-term due to demonetisation, but will come down in long-term.
- One of the main reasons behind demonetisation move was to curb black money but only a small portion of the black money is actually stored in the form of cash. Most of the black money is kept in the form of land, gold and buildings etc.

Review of Literature

Muthulakshmi, E. Kamatchi (2017): In her paper entitled "Impacts of Demonetisation on Indian Economy Issues & Challenges" states that when the money is withdrawn from the economy, the country will not be benefited in short term. On the other hand, if the money paves its way into the economy it would have a positive and meaningful impact. She also states that the demonetisation move, on one hand, was a serious attack on black money, corruption, hawala transaction, counterfeit currency and terror financing. On the other hand, it had a negative impact on various sectors like commodities and real estate.

Shah, Ayash Yousuf (2017): Stated that Demonetization is one of the major steps in fighting against corruption, black money and terror funding. However, this decision was taken without proper preparation and it adversely impacted the public. Without printing enough new currency notes 86% of the currency notes were withdrawn thrashing all market transactions. Only common people had to face problems exchanging their notes, not the people who were targeted. With an intention to rid the country of black money and dig out tax defaulters a black money holder, the government has taken the step to demonetized Rs 500 and Rs 1000 notes. The sudden announcement of demonetisation and failing to plan properly has created chaos among the general public. Common people are facing problems buying with no money in their hands, wasting their time standing in endless queues could have easily been avoided with advance planning.

Veerakumar, K. (2017): Posits that the announcement of demonetization of 500 and 1000 currency notes by the government is a big shock to the citizen of India. The highest currency notes are withdrawn from the economy to counter the problem of tax evasion, counterfeit currency and financing of terror activities. It is shown that huge money is being deposited into the bank accounts which are more than specified limits and are subject to penalties and taxes. Usage of e-wallets, debit and credit card has been increased tremendously and this will create better cashless infrastructure.

Abhani Dhara K. (2017): Posits that this Demonetisation is proving to be more successful than the previous two. The era is changing. People are using online banking as a mode of payment. Bank employees are giving their best to make the demonetisation a successful one. Their support matters a lot. Though the demonetisation move has failed to grab total black money in the economy, this has at least created fear in the minds of people holding black money. He concluded that demonetisation was a compulsory step to tackle the problem of black money, terrorism and corruption etc.

Shukla, Bal Govind and Gupta, Hariom (2018): In their paper entitled "An Exploratory Study of Business Students Perspectives on Demonetization in India: With Special Reference To

Allahabad City". They used primary data for their study and concluded that the people actively support any initiative taken by the government which are basically targeted to eradicate corruption, black money, and any other threats like terrorism and naxalism in the country.

Need, Scope and Objectives

Need and Scope of the Study

There was a recognized necessity to conduct a comprehensive analysis of the policy, aiming to pinpoint any shortcomings, find practical solutions to the issues,

grasp the core goals of demonetization, and evaluate the impact of demonetization on various key sectors of the economy.

Objectives of the study

The purpose of the research was to comprehend the primary goals of the policy, to grasp the significance and rationale behind demonetisation, to evaluate the impacts of demonetisation across different sectors, and to explore both its beneficial and adverse effects.

Research Methodology

This research is descriptive in nature and explores the significance and rationale behind demonetization, along with its sector-specific effects and the positive and negative consequences it has had on the Indian economy and the everyday lives of citizens. The study relies on secondary data sourced from various materials, including the Economic Survey 2016-2017, The Reserve Bank of India, and several journals such as Economic and Political Weekly, Frontline, and The Week, as well as various research papers. Additionally, primary data was gathered from beneficiaries through structured interviews.

Sources of data collection

1. Secondary Sources
2. Primary Sources

Research instruments

The primary data was collected systematically throughout the research process, utilizing a structured schedule and conducting interviews with individuals. The schedule employed for data collection was structured and non-disguised. It has been crafted with the research problem in mind, incorporating both closed-ended and open-ended questions, as well as personal information about the respondents. The following graphical representations shows the opinions of respondents:

1. Awareness regarding Demonetization among respondents before it would come into force on 8th November 2016?

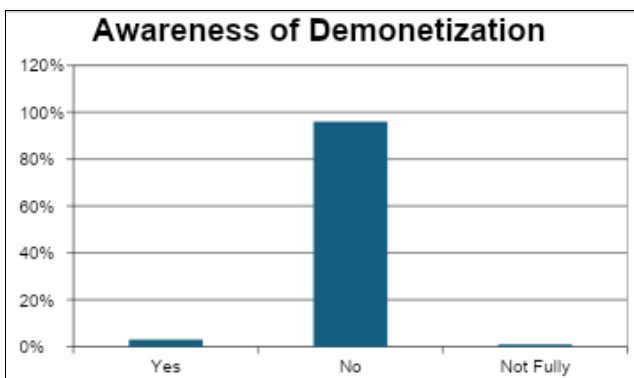


Fig 1

Interpretation

The findings indicate that 96% of individuals were not informed about the demonetisation that was set to take effect on 8 November 2016. Conversely, 3% of the respondents had knowledge of the event, while 1% had a partial awareness of it.

2. Problem faced by respondents when Demonetization was announced:

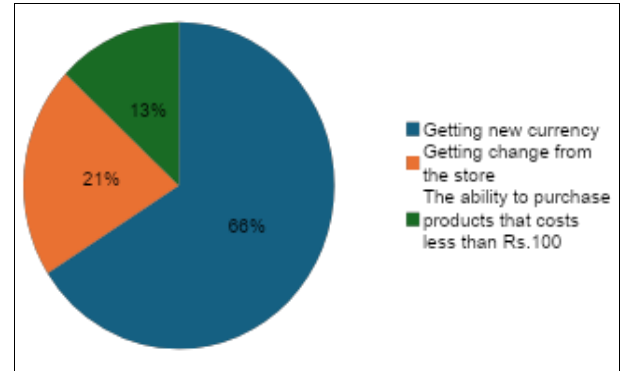


Fig 2

Interpretation

Based on the data presented, it is evident that 66% of the respondents experienced challenges in obtaining new currency, while 21% faced difficulties in receiving change from stores. Additionally, 13% of the respondents reported difficulties in purchasing items priced below Rs 100.

3. Were you able to get the new currency whenever you went to the bank?

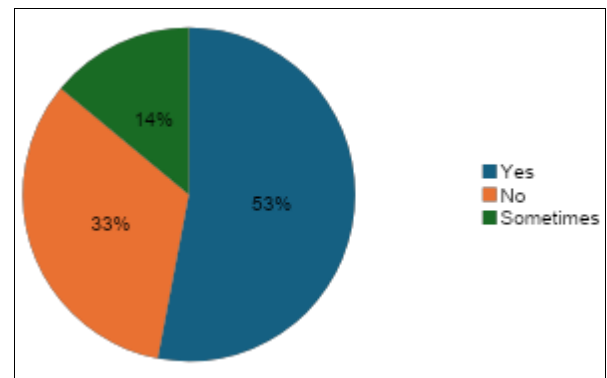


Fig 3

Interpretation

A total of 53% of the respondents indicated that they experienced challenges in obtaining the new currency during their visits to the bank. Conversely, 33% reported no difficulties in withdrawing money, while 14% occasionally encountered difficulties.

4. How long did you have to stand in the line at the ATM when you went to withdraw cash?

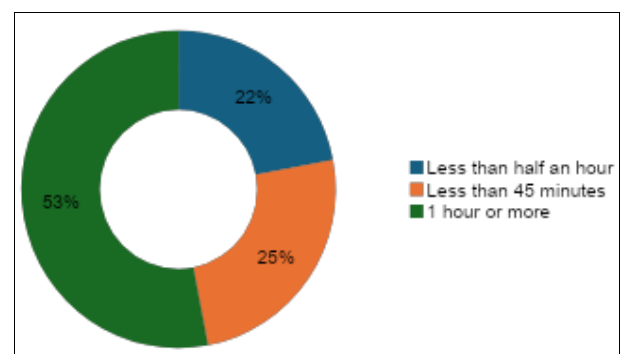


Fig 4

Interpretation

Despite the availability of funds at various banks and ATM centers, 53% of respondents reported waiting for one hour or more to withdraw money from ATMs. Meanwhile, 25% indicated that their wait time was under 45 minutes, and 22% stated they waited for less than half an hour to access their funds from the ATMs

5. How did you feel about moving into digitalization?

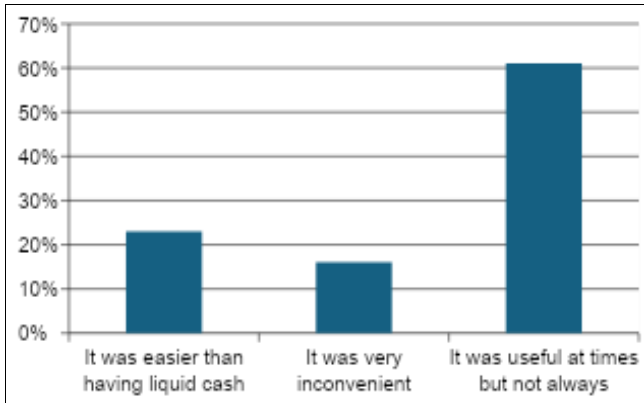


Fig 5

Interpretation

The new generation exhibits a strong interest in embracing digitalization; however, they perceive significant challenges in making this transition in the current context. Among the one hundred respondents surveyed, 61% believe that digitalization is beneficial at times, but not consistently. Meanwhile, 23% find it easier to adopt digital methods than to rely on liquid cash, while 16% express that the process is quite inconvenient.

6. Economic impact of demonstration- positive and negative?

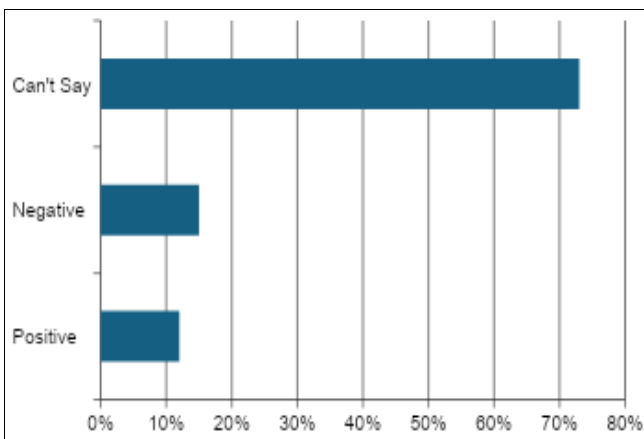


Fig 6

Interpretation

A total of 73% of respondents believe that demonetisation has both positive and negative effects on the economy. This indicates that a significant portion of the respondents is unable to definitively conclude whether demonetisation has a beneficial or detrimental impact on the Indian economy. Additionally, 15% of respondents firmly assert that demonetisation has a negative effect, while 12% acknowledge its positive influence on the economy.

7. Did Demonetization make things easier for you?

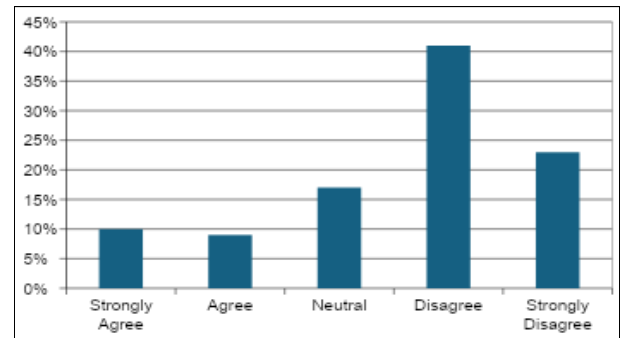


Fig 7

Interpretation

Every citizen of India held a perspective regarding the notion that demonetisation would simplify matters for the average individual. According to the survey results, 10% of respondents strongly agreed with this assertion, 9% agreed, 17% remained neutral, 41% disagreed, and 23% strongly disagreed. Based on this data, it can be inferred that demonetisation did not facilitate ease for the common man and was largely met with disapproval.

8. Did Demonetization have impact on black money?

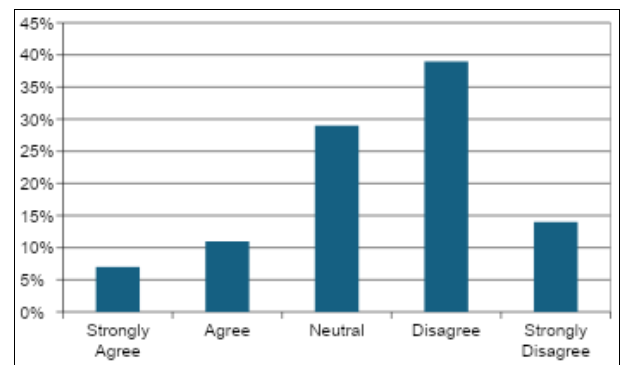


Fig 8

Interpretation

The effects of demonetisation on black money have elicited varied responses: 7% of participants strongly agree, 11% agree, 29% remain neutral, 39% disagree, and 14% strongly disagree. The majority of respondents perceive that demonetisation has at least a moderate effect on the issue of black money.

9. Will Demonetization make people less corrupt in India?

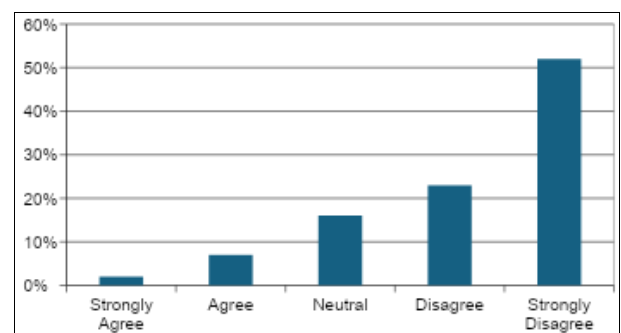


Fig 9

Interpretation

The primary objective of the government's demonetisation initiative was to reduce corruption among the populace in India. However, a survey of 100 respondents revealed that only 2% strongly agreed with this aim, 7% agreed, 16% remained neutral, 23% disagreed, and a significant 52% strongly disagreed. This indicates that a majority of respondents do not support the notion that demonetisation has effectively contributed to reducing corruption.

10. Would the Demonetization affect the Economy?

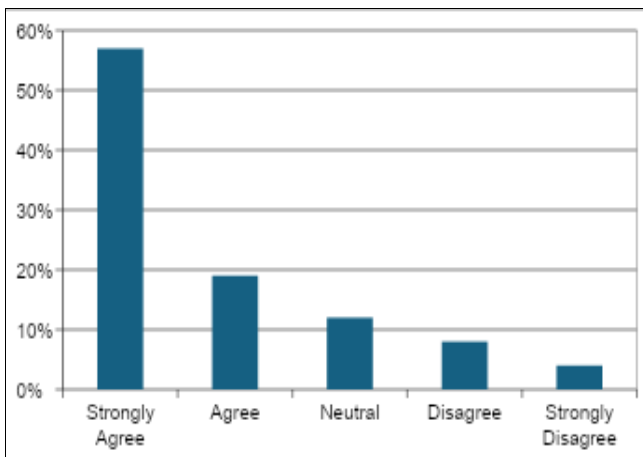


Fig 10

Interpretation

Among the participants surveyed, 57% expressed strong agreement, 19% indicated agreement, 12% remained neutral, 8% disagreed, and 4% strongly disagreed. This data suggests that demonetisation has a significant impact on the current economy.

11. Do you think that demonetization could have implemented in better way?

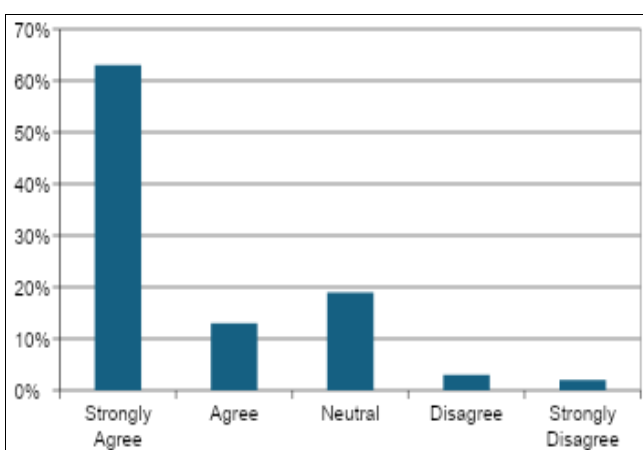


Fig 11

Interpretation

We all had doubts and still have doubts whether the demonetisation could have implemented in a better way or not. According to the survey taken randomly from for 100 respondents 63% strongly agree 13% agree 19% neutral 3% disagree and 2% strongly disagree.

12. Black money, corruption and counterfeit notes- does the demonetization under way address any of these issues?

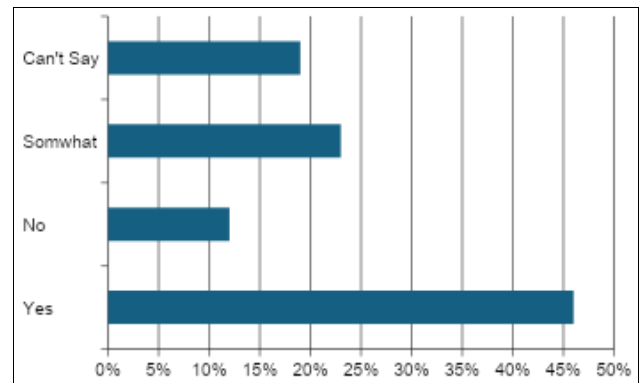


Fig 12

Interpretation

The issues of black money corruption and counterfeit currency are significant concerns. According to recent data, 46% of respondents believe that the ongoing demonetisation efforts effectively address these problems, while 12% disagree. Additionally, 23% of participants feel that the demonetisation has partially tackled the aforementioned issues, and 19% remain neutral, neither agreeing nor disagreeing with the effectiveness of the measures taken.

13. Demonetization as a last resort to clean economy:

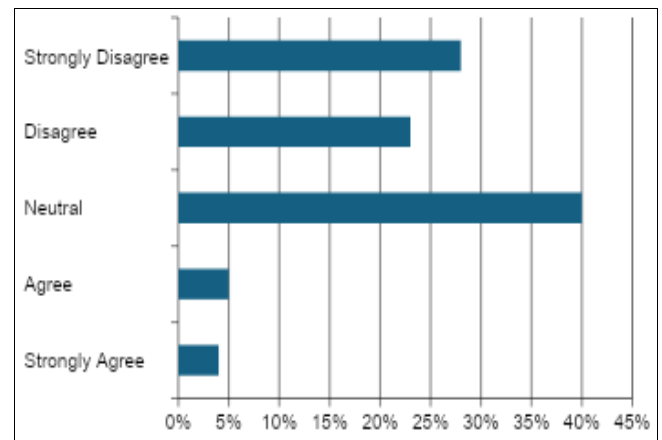


Fig 13

Interpretation

Since the announcement of demonetisation, many Indian citizens have harbored doubts regarding its effectiveness as a final measure to cleanse the economy. The responses indicate that 4% strongly agree, 5% agree, 40% remain neutral, 23% disagree, and 28% strongly disagree.

Limitations

Study being conducted was wide and analysis require expertise knowledge and skills were lacking.

- Though carrying out the research study was a learning and enriching experience but I also faced some constraints and limitations.
- The study is done much with secondary data, hence it did not give me much satisfaction as compared to being fully present in the field of research and collecting information primarily.

Conclusion

The Demonetisation - 2016 was aimed at fixing the ills of corruption, black money, terror funding via counterfeit currency, etc. Demonetisation impacted different sectors like Real estate and Property, banks, media and entertainment industry, tourism industry, luxury segment, automobiles, retail, agriculture and labour-intensive sectors adversely.

However, at a later date a few more objectives like reducing cash economy by promoting digitalisation, increasing the tax base, etc. were also added to its broader objectives. It was packaged as an ethical step and a measure that will benefit poor in the long run. Our analysis indicates that rural poor have, by and large, have bought the idea and welcomed the decision, as they feel that it will teach a good lesson to the corrupt and those who have made lots of money unethically and are keeping it in cash. They feel that they have little to lose except facing some hardships for a short period. But it will cleanse the economy and lots of money will come to the government coffers which will be used for development that will benefit poor.

After looking at facts from the various sectors and economic indicators, demonetization had a more severe short-term impact than a long-term impact. The conclusion can be attributed to the higher cash circulation contributing to the economy of India. This study also shows that the government under Prime Minister Modi did not execute the decision to its upmost potential. The idea of removing 86% of the currency did have logic, but the planning and opportunity costs were not taken into consideration.

Demonetization was move take by the Modi government and the RBI to curb the black money practices and this was due to prevent the people form hoarding of the cash and to prevent the counter fitting of the currency and to fight against the terrorist groups that operate in India. In the short-term, the movement had social impacts on citizens. The stock market fell in the short-term despite global optimism. The agriculture sector had to recuperate during their peak season. The banking sector had an increase of deposits but could not convert those deposits into higher profits, because citizens were not interested in loans. The unemployment rate increased and the labor force participation rate decreased. The inflation rate decreased to record lows but then increased by almost 1%, indicating that the impact of the demonetization on inflation was rather short-term.

The demonetization impacted the economy by creating a short-term pain but a long-term profit for the economy as the change was felt by all the segments of the economy the decline in the productive capacity and decline of the cash-based transaction that made the nation cashless and thereby benefiting the firm and consumer levels.

Demonetization also resulted in the deaths of hundreds of citizens as they were not able to use cash for healthcare services and not access basic needs for survival. In the long-term, the movement did not have much of an impact as "black-money" holders were able to invest their illegal income into other assets, such as gold. For future leaders, this study conveys the message that all factors and economic indicators in the nation should be taken into consideration with evidence through statistical tests and proper management. Overall, demonetization did not impact India in the long-term. Instead, it created disruption in a growing economy and added more chaos.

This move stopped the black and illegal trade of goods and services and possesses a challenge for the future currency markets and thus has a profitable outcome in the long run when the economy will bounce back to the high growth without black or illegal capital.

On the positive side, can have long term benefits. These may not necessarily become manifest in the next six months but evidence should start trickling in over a one-year horizon and beyond. And it is not difficult to identify the future markers of success.

Even though it is Evident from above that due to Demonetization our Country faced a number of Problems but it should also be noted that Indian Economy is known as a Resilient Economy and the Current state of Economy Proves this fact because except for few Sectors almost all the sectors have recovered from the shock of Demonetization.

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