



## Impact of recent demonetization in India

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**Abstract** : On 8<sup>th</sup> November 2016, night at 8.15 pm Indian Prime Minister, Sri Narendra Modi declared that Currency notes 500 and 1000 would be invalid from midnight on the same day and he also declared that in exchange of these old notes new notes of 500 and 2000 Mahathma Gandhi Series would be issued and other bank notes 100,50,20,10 would remain as legal tender. This paper is an attempt to focus attention on the practicability of decision by Government of India and its impact on Indian economy and general ongoing life of common man. The incidents that have happened so far are discussed with the help of material facts collected from RBI reports.

**Key words:** demonetization, smuggling, deposit inflows

### Introduction

On 8<sup>th</sup> November 2016, night at 8.15 pm Indian Prime Minister, Sri Narendra Modi declared that Currency notes 500 and 1000 would be invalid from midnight on the same day and he also declared that in exchange of these old notes new notes of 500 and 2000 Mahathma Gandhi Series would be issued and other bank notes 100,50,20,10 would remain as legal tender.

As per the central government, the main reasons behind the present demonetization are to crack down black money, stop funding to terrorism, and reduce corruption and smuggling and control the increasing use of drugs and so on. With whatever intention the government of India enacted the above, even if assumption of consistent benefit in long run is considered, a few following incidental changes have been being activating public to revolt against the decision.

### Objectives of the study

- ❖ To study the concept of demonetization
- ❖ To examine the impact of decision of demonetization on Indian Economy
- ❖ To Analyze the disturbances to general public with the effect of demonetization
- ❖ To understand the performance of electronic payment system during the period post implementation of the decision of demonetization
- ❖ To make necessary suggestions to go for further actions to set right the present complicated scenario

**Data Sources:** The required information for the study is collected mostly secondary data from Reserve Bank of India reports and presented in tables and charts. Researcher collected primary information by an interaction with some business people, daily laborers and employees and got a record of their opinions regarding demonetization.



**Need for study:** As per the announced statement, the decision of demonetization aims at curbing black money, funding to terrorism, smuggling activities. But in practice it appears to be non fulfillment of the above aims and it is creating unhealthy economic atmosphere in the economy and a complete disturbance to move on in day to day life of a common man. It is felt necessary that it is important to study and analyze the present economic situations that are prevailing in the country with the effect of sudden decision of demonetization.

### Historical back ground

As per the history, Demonetization is not first time initiative in India.

- 1946, January, bank notes of 1000 and 10000 rupee notes were withdrawn by Government of India.
- 1954 New notes of 1,000, 5,000 and 10,000 note were introduced.
- 1978, 16 th January, notes of 1,000; 5,000 and 10,000 notes were demonetized by Jantha Government.
- 1912 Central Board of direct Taxes(CBDT) recommended that demonetization of higher value denomination notes is not a correct action to curb black money as black money holders maintain only 6% or less than that in cash form and the remaining in bullion, jewelry and benami prosperities
- 2016,28<sup>th</sup> October The money in circulation in India was Rs 17.77 trillion
- 2016,31<sup>st</sup> March, as per RBI report total bank notes in circulation were Rs 16.42 trillion of which nearly 86% were 500 and 1000 notes.24% of the total 90226 million bank notes were in circulation.

- 2016, November 8 th night at 8.15 pm Indian Prime Minister Mr. Narendra Modi announced demonetization of 500 and 1000 rupee notes.

### Impact of demonetization

RBI launched new 500 and 2000 notes from Thursday. On Thursday before reopening of banks, allover India, huge crowds gathered in very long queued up outside the various banks buildings in almost all places to deposit old notes and to withdraw new notes.

- In a tweet , Shakthi Kantha Das, Economic Affairs Secretary said- " Banks will remain open this Saturday and Sunday and bank staff will do overtime till 9 pm
- RBI Issued an order instructing all the banks to be open on the coming weekend including Sunday.
- IT department has identified very huge deposit inflows into Jandhan Accounts
- Amounts deposited in Jandhan Accounts in between the dates 8-15 in November 2016, Rs 20206 Crore; People deposited 11,347 Crore between 16-22 dates of November in these Accounts. This decelerated to 4,867 Crore during the period in between dates 23-30 of November ,2016 as the Government warned people not to allow their accounts to be misused for converting black money into white.
- Total daily deposit in Jandhan Accounts was Rs 410 Crore on 1<sup>st</sup> December and Rs 389 Crore on 2 nd December 2016
- During the period from November 8<sup>th</sup> to December 2<sup>nd</sup> The



average per Account deposit in Jandhan Accounts is Rs 13,113

- As per estimation, Since November 10<sup>th</sup> Rs 11.85 lakh Crore 500 and 1000 currency notes have been returned into banks in India. All these old currency notes constituted 86% of Rs 14.5 lakh Crore in Circulation.

- After note ban ,more than 220 Crores including Rs 2000 notes were seized in raids

- A decline in spending habits of Indian people is resulting in a big toll on the country's growth and output because consumption makes up 56 % of GDP. The reason behind this is Indian people are highly dependent on cash and less than half of total population only are dealing card dealings

- Real-estate, FMCG and Construction fields got heavily affected as consumers are deferring purchases. It is appearing to be in short term. ( YES Bank Report)

- There are some benefits also like increased financial inclusion, boost in growth due to movement of household savings from physical to financial, decline in inflation due to spending slow down, fiscal discipline from the part of government as there is increased fiscal headroom.( YES Bank Report)

- During the period November 10<sup>th</sup> 2016 and December 7<sup>th</sup> 2016 banks reported that they had issued bank notes worth Rs 4,27,684 Crore to public either over bank counters or through ATMs

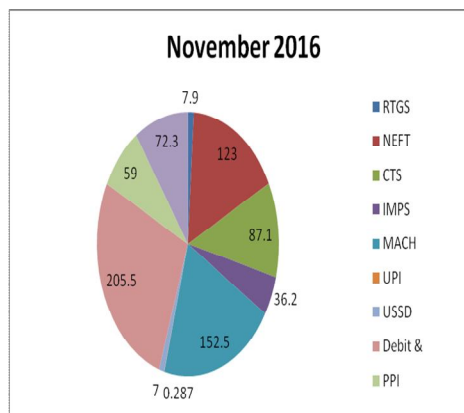
- By following the demonetization announcement the BSE Sensex and Nifty 50 Stock Indices Crashed for the next two d

### Data Analysis

#### Source- Reserve Bank of India Reports

- RTGS- Real time Gross Settlement
- NEFT-National Electronic Fund Transfer
- Cheque - truncation System
- IMPS-Immediate payment service
- NACH-National Automated Clearing House
- UPI-Unified Payment Iinterface
- USSD-Unstructured Supplementary Service data
- PPI- Pre paid payment instrument.

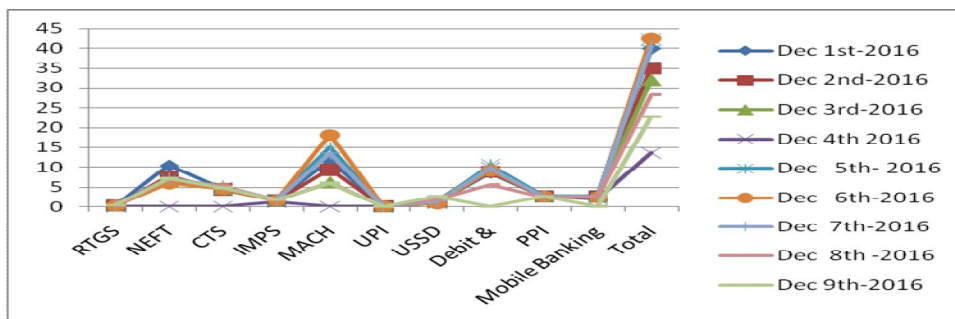
#### Electronic Payment Systems (Volume in millions)



Source: RBI Reports

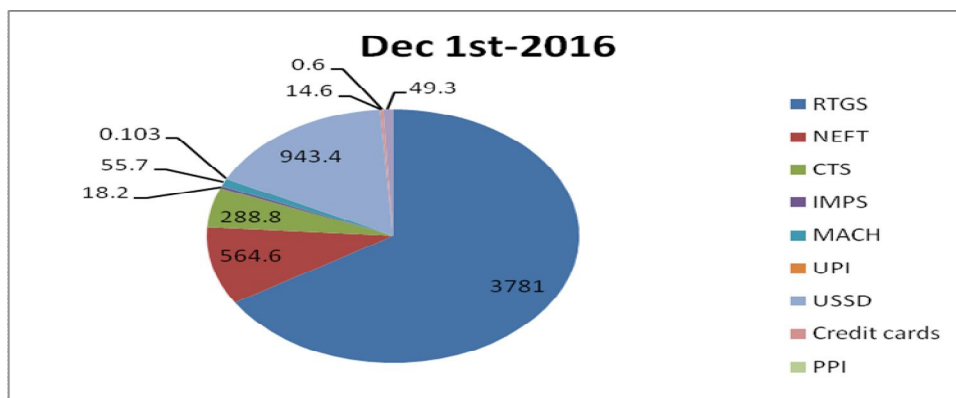


**Electronic Payment Systems (Volume in millions)**



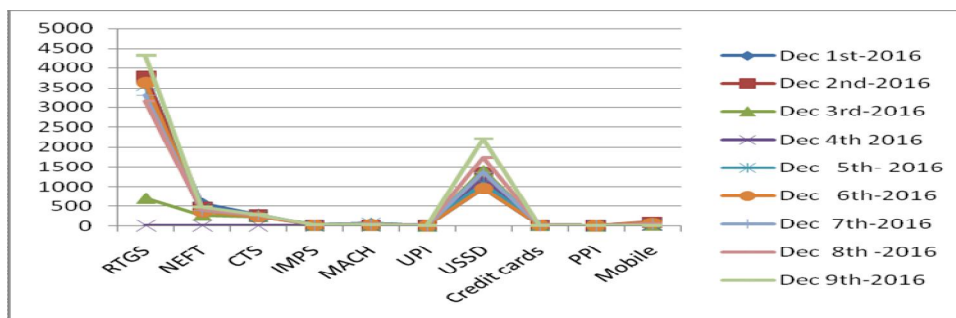
Source: RBI Reports

**Electronic Payment Systems (Value in Rs billion)**



Source: RBI Reports

**Electronic Payment Systems (Value in Rs billion)**





Electronic Payment Systems ( Volume in Million;Value in Rs Billion)										
	November 2016	Dec 1 <sup>st</sup> - 2016	Dec 2 <sup>nd</sup> - 2016	Dec 3 <sup>rd</sup> - 2016	Dec 4 <sup>th</sup> - 2016	Dec 5 <sup>th</sup> - 2016	Dec 6 <sup>th</sup> - 2016	Dec 7 <sup>th</sup> -2016	Dec 8 <sup>th</sup> -2016	Dec 9 <sup>th</sup> -2016
RTGS	7.9	.3	.3	.3	H	.3	.3	.3	.3	.3
	78479.2	3781.0	3784.7	706.0	H	3552.4	3630.4	3300.7	3151.8	4329.5
NEFT	123.0	10.4	7.7	6.4	H	7.0	6.0	7.2	6.9	7.1
	8807.8	564.6	466.6	272.9	H	459.2	350.1	399.0	417.1	473.6
CTS	87.1	4.6	4.4	4.7	H	4.9	4.6	5.2	5.1	4.8
	5419.2	288.8	265.9	231.4	H	247.2	222.7	256.8	256.6	277.5
IMPS	36.2	1.8	1.7	1.7	1.2	1.9	1.7	1.8	1.8	1.8
	324.8	18.2	16.4	15.0	9.0	16.5	14.0	15.5	15.4	15.3
MACH	152.5	11.6	9.4	6.2	H	15.0	18.2	13.5	6.0	6.0
	606.6	55.7	14.5	15.3	H	64.0	21.1	32.0	29.9	17.3
UPI	.287	.029	.035	.035	.027	.035	.042	.048	.053	.053
	.905	.103	.107	.104	.071	.113	.129	.154	.141	.168
USSD	7.0	1.0	1.2	1.4	1.1	.9	.8	1.3	1.8	2.5
	7302.6	943.4	1349.9	1413.9	1198.2	1076.3	943.3	1358.0	1740.3	2220.7
Debit & Credit cards	205.5	8.6	8.9	10.0	9.9	10.5	9.2	9.8	5.5	--
	352.4	14.6	15.3	17.4	15.3	17.5	16.0	17.2	10.6	--
PPI	59.0	2.5	2.6	2.7	2.5	2.7	2.6	2.7	2.5	2.5
	13.2	.6	.6	.6	.6	.6	.6	.6	.6	.6
Mobile Banking	72.3	2.8	2.6	2.6	2.0	2.5	2.5	2.6	2.5	--
	1244.9	49.3	89.1	26.3	11.5	43.8	72.4	44.9	40.8	--
Total	671.5	39.9	35.1	32.0	13.6	42.4	42.6	40.5	28.2	22.7
	94004.2	4723.5	4564.1	1258.5	24.9	4357.4	4254.9	4021.8	3882.2	5114.0

Source: RBI Reports



### Analysis and Interpretation

The above table and Charts are indicating Level of Cashless transactions done in the full month of November and a few days in December, 2016. These are the material facts during the period after the implementation of demonetization. Out of the all means payments through RTGS were the highest in value though the volume appeared to be lower. NEFT was in the next place and UPI in last position with least volume and value.

### Findings

- As per the statement of Prime minister, Demonetization decision aimed at controlling of black money, funding to terrorism, and smuggling.
- With the effect of demonetization day to day life of common people is badly effected
- So far black money only Rs220 crores came into picture.
- The government might have neglected the suggestion of CBDT (1912) which implies 'Black Money or wealth holders maintain 6% or less than 6% of their total wealth in the form of currency and remaining in bullion and benami properties, Demonetization may not be the remedy to control black money'.
- The spending slow down may ultimately result in decline of inflation
- As far as the information till date is concerned, Black money came into light so far is very less and negligible as the black money holders are becoming successful in exchanging their old demonetized currency into new currency in various ways. They are not getting affected but the common man is severely suffering even to pass a day to get his livelihood.

- Cashless transactions are possible to less than fifty per cent population as the remaining people don't have card related transactions and particularly people in rural areas are not updated to this
- As per an estimate nearly 100 people died in queues while trying to take cash from ATMs

### Suggestions

- The government should have examined the past history to understand the success rate of curbing black money by initiation of demonetization before announcing demonetization.
- Though demonetization is to be confidential decision, the pros and cons of implementation should have been analyzed with the help of economists and experts in the fields concerned.
- The supply of currency in 100, 50, 20 and 10 denominations should have been gradually supplied during the period earlier to the announcement of demonetization.
- Necessary steps are to be initiated by the government on war footing basis to set right the present adverse and very painful economic conditions to common man particularly.

### Conclusion

As per an estimate, in India less than half of total population is only using cards and other means of cashless transactions. At this present scenario it is very difficult to follow 100 % cashless transactions all over India. To achieve this drastic decisions and steps are to be taken and it takes much more time. The government is to take initiative to set



right the adverse situations that are prevailing in the country after declaration of the decision of demonetization. According to present scenario it appears that with what hope and expectations demonetization decision is implemented, have not yet been fulfilled. The government is to have a second thought regarding demonetization.

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