A STUDY ON THE OBJECTIVE AND IMPLEMENTATION OF DEMONETISATION

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ABSTRACT

The Demonetisation was a massive step taken by the Government of India to curb the Black Money from the Nation. The basic ideology of the policy was to create a short term impact for long term purposes and to suppress corruption from the prevailing system and economy. Though the government data says a different story but the hard facts and figures of ground zero reality are far much different from them. The scope of this research study is to find the success of the policy by observing both the government data and the ground data in the central objective of the research. The study also discovers, after a deliberate search, the various ways through which the black money was recycled. It’s an examination of the policy based on the objectives set for the policy by the Government of India and The Reserve Bank of India respectively.

KEYWORDS: Demonetisation, Black Money, Economy, Corruption, Currency

Introduction:
“...those who torment us for our own good will torment us without end, for they do so with the approval of their own conscience” – C.S. LEWIS.

Demonetisation is a radical modification in the monetary policy of a nation. It’s an act of stripping a currency unit from its status as a legal tender and declaring it as illegal. Demonetisation is of due importance when ever there is a need of bringing a change in the legal tender of a nation. It was never an alien concept and have its profound marks in the economic histories of the various nationalities. The presence of this can be traced back to 1982 (Ghana), 1984 (Nigeria), 1987 (Myanmar), 1991 (Soviet Union) and 2010 (North Korea). Some of the Dramatic examples of demonetisation includes The Coinage Act of 1873, demonetised silver as the legal tender of United State of America, in favour of fully adopting the Gold Standard but again remonetized silver as a legal tender in 1878. Demonetisation was also done for the trade purposes when the European union officially declared Euro as a legal currency for the members of European union group. Demonetisation was also used a super tool to cope which economical condition of Inflation in the year 2015 by Zimbabwe.

It’s a universal belief among the research scholars, economists and politicians that most of the black money existing in the world in form of cash, exists in the highest denomination of that country. Demonetisation is only the well-defined way to tackle the existing black money or the issue of the parallel economy. Amongst the top ten economies of the world, the total amount of black money amounts to $4.46900 trillion itself, which is quite a huge % of the total economies of those nations. Demonetisation not only helps in tackling economic concerns but also effective to tackle major issues like fake currency and terror funding etc.

The authority of calling for a Demonetisation lies with the federal or central bank of that nation along with the central government. Basically, every nation has a predefined act which governs the process and power to announcing a demonetisation. This is either done by an act of parliament or by giving a notice in the Official Gazette. Every Nation has their distinctive way to do it and it is possible the steps taken by one nation may or may not be identical to another.

Demonetisation in India:

- India has gone through demonetisation thrice namely in 1946, 1978 and 2016. Indian rupee is the de facto type of currency. It’s being also used as a legal tender in Nepal and Bhutan. The Indian currency is being pegged up by the currencies of these nations. It was also used to be an official currency of Straits Settlements. The first incident of Demonetisation was recorded in 1946. The main reason was behind this demonetisation to control hyper inflation. The government announced to demonetised currency above Rs. 1000 with effect from 1946 Jan. 12. As per the data available, the only bearer of these notes amounted to 3% of the then population of India so, it didn’t affect the normal life much. The government collected Rs. 134 crore from a total of Rs. 143 cr through this drive.
- The second drive of Demonetisation came after the imposition of emergency in the year 1975. The government in power was of Janata Dal. This time it was more like a corrective measure i.e to remonetized the currency of Rs. 1000, Rs. 500, Rs.10,000 in 1956. The wagoncho committee recommended the government to scrap the high denomination currency but it was finally implemented by the Morarji Desai government in 1978. But this led to a condition of Inflation in the economy. The demonetisation of 1978 is not considered successful by many of the scholars.
- The third drive of demonetisation came in the year 2016 when the NDA alliance was in power with Shri. Narendra Modi as the Prime Minister. The basic objective of this policy was to curb the black money from India and also to solve and control the by-effects or side effects of the Black money i.e terror funding, fake currency etc. This time the government was also eager to take India to the next level by shifting the economy and transforming nation in Digital economy.

Need for the study:

- To get a clear analysis of the policy.
- To detect the loopholes.
- To find effective solutions to overcome the issues.

Review of literature:

1. Sasyak pattnaik (29 November 2016), in his research paper of “exploring the effects of demonetisation in India”, has elaborated the various effects, that the act of 2016 has made in the economy of the country. Properly explaining the facts regarding demonetisation and its relating history, Sasyak Pattnaik has described the impact of the same in the country.
2. The Tax research team (29 November 2016) in its working paper “Demonetisation: Impact on the economy” has put a light on the short run and medium term impacts of the demonetisation and its effect on the economy. Describing the facts regarding black money and its extinguishing effects, it has also elaborated the impact on the availability of credit, spending, level of activity and government finances.
3. K. Veerakumar (2017) in his research “a study on people impact on demonetisation”, has clearly explained the demonetisation concept in India and analysed the demographic profile of people in order to identify people’s impact on demonetisation. Explaining the meaning and need of demonetisation study, he has analysed and interprets the impact of demonetisation on a particular district and its study describes the impact,
demonetisation 2016, has made on the people of the country.

4. Ayush Yousuf Shah (March 2017), a researcher at MIPISSR Ujjain, Mp, has also studied demonetisation and his research of “Impact of demonetisation on rural India”, has focused on the impact of the act on common people, agricultural sector, farmers and on the economy of India. Analysing the data from the secondary source, he has explained the impact on agriculture and the economy of the country and its effects after the act.

5. Ms G. Yohavarshini et al. (January 2017) opines “A study on demonetisation in India and its effectuations”. They spotted a study on the causes of the demonetisation 2016, which describes the main reasons which made demonetisation effective. Their study also evaluates the impact of demonetisation, merits and demerits of the economy and people of the country. Also by providing a survey report, they have described the complete effect of demonetisation on the country.

Objectives of the study:

- To understand the main objectives of the policy.
- To evaluate the implication of the policy.
- To do a critical examination of the policy.

Research Methodology:

- Data collection: The secondary data was collected from R.B.I Portal.
- This study is Descriptive and Qualitative.
- The period of study is 2016-2017 (Post Demo period)

Limitations of study:

This study is based on RBI reports and various electronic and print reports and still awaiting for the empirical evidence from Central stastical organisation.

Analysis:

- On November 8, 2016 India was taken back with a shocking announcement by the Prime Minister, Sri. Narendra Modi, informing the whole country about the discontinuation of the currency notes of 500 and 1000 as a legal tender. This policy of demonetisation started from November 9, 2016 and ended on December 30, 2016. The period of demonetisation proved to be dark as it prolonged the shortage of cash causing disruption in the economy and economic output. The prime minister announced the invalidity of the 500 and 1000 currency past midnight and this would be replaced by the issuance of new currency notes which can be exchanged within the specified limit till 30 December, 2016.

- On the day after the announcement, the BSE SENSEX and NIFTY 50 stock indices fell over 6 percent causing severe shortage and adverse effect across the economy. Attributed by the economists, the GDP growth for the entire year was estimated as 7.1% after demonetisation, which was a reduction from the 8% of the previous year. The growth rate of GDP in April-June 2017, dropped down to 5.7% which when compared to previous year was 7.9%. Having proved to be the lowest GDP growth since 2014, this drop in GDP was attributed due to the demonetisation. Thus in March 2016, India lost the tag of fastest growing economy to China with a GDP growth of 6.1%.

- During the period of demonetisation, it is said that about Rs.14,000 crores of money was in circulation and this amount will be deposited in banks and RBI. RBI will then release new currency replacing the older one. Ascertaining to this, the demand for money will remain the same and the supply will be reduced. Prices of goods and services will gradually come down as people cannot demand for goods due to lack of cash. Though the digital transactions may increase, but about 50% of the population do not have bank accounts. Thus the inflation for the next six months after the demonetisation effect will be less and the inflation rate is low. The policy of demonetisation will have a negative impact on the inflation leading to deflation in the economy.

- During the tenure of demonetisation, the total cost was estimated to be Rs. 1.28 lakh crores. At the same time, businesses were expected to pay the biggest amount which cost Rs. 61,500 crores, about 50% of the whole cost incurred. The impact of this would mainly fall on sales. The annual consumption of households would be Rs. 31 lakh crores. Over a long period, low liquidity, broken supply chains and reduced consumer confidence with impact the economy. After the enterprises, the banks are expected to bear Rs. 35,100 that is around 27% of the total cost. The households are also expected to be hit very badly with the cost of Rs. 15,000 crores. On the other hand, the E-commerce companies faced up to a 30% reduction in cash on delivery orders.

- According to the RBI, Rs.7,62,072 pieces of counterfeit notes were found in the overall banking system, which showed a 20.4% increase from the previous year. As per the results of estimating the density of fake Indian currency notes per million pieces, 7.1% of Rs.500 notes and 19.1% of Rs.1000 notes were detected which were higher than the rate of detection. During the verification of currency notes, 2.4 peices of Rs.500 notes and 5.8 peices of Rs.1000 notes for every million peices notes were processed in 2015-16. And after demonetisation, it rose to 5.5 peices of Rs.500 and 12.4 peices of Rs.1000.

- According to the household survey of a sample size of 1,61,167 households all over India, it was estimated that about 1.5 million jobs were lost post demonetisation in the first four months of the year 2017. The estimated employment during the period was 405 million which was a huge loss of jobs as compared to the previous months with 406.5 million jobs. As the number of employed people have dropped, the unemployment rate has also gradually fallen. During this, about 9.6 million people declared themselves as unemployed. Thus as a result, the labour force fell by 11 million. The unemployment rate during September-December 2016 was 6.8%, which after demonetisation fell to 4.7% in January-April 2017. According to this, the labour participation rate during January-April 2017 was 44.3% which was much lower than the previous year with 46.9%.

- After the announcement of demonetisation, the stock market indices were seen dropping gradually. The BSE SENSEX crashed nearly 1689 points and NIFTY 50 plunged over by 541 points. At the end of the intraday trading section on mid of November 2016, the BSE SENSEX index was lower by 565 points and the NIFTY 50 index was below 8100 intraday. Thus due to the demonetisation, the stock market was seen declining gradually.

- The demonetisation acted as a liquidity shock in the economy, disturbing most of the economic activities. People were not able to get enough amount of cash exchanged and wait for a longer time. Most of the transactions in our economy are done using cash, thus it lead to a welfare loss among most of the population. When there is a lack of liquid cash, people like small traders, daily wage earners, labourers etc will lose their income. Mainly the consumption will be affected adversely and will reduce the production, employment, growth and tax revenue. After demonetisation, India had already lost its tag of fastest growing economy to China. Even the bank deposits and interest rates were adversely affected by the demonetisation. In the context of black money, only a small portion of cash is in this form thus, it had an affect on its economy as well.

- Hawala transactions during the demonetisation had an adverse effect on India. Mumbai police had also reported a setback to hawala operations, where they were not able to do business for one whole week. It was also reported that the hawala operators destroyed the high value currency, out of which one operator destroyed about Rs.500 crores. As the hawala transactions run on black money, demonetisaion has hit the business badly causing many operators to stop the business and destroy the currency with them. In order to find a solution, the hawala operators put a halt to their business but were confident enough to bring it back on track later.

- The reserve bank of India, in its data had shown that demonetisation had also affected the circulation of money all
over the country. The total currency in circulation was 30% less than the previous levels from demonetisation. In November before the demonetisation, the currency in circulation was Rs.17.97 trillion, which when after the demonetisation dropped to Rs.8.98 trillion. This move led to severe cash crunch across the country. It also led to the adoption of e-wallet and other modes of electronic transactions.

- There was a positive aspect of demonetisation regarding the tax defaulters in India. The tax defaulters were found showing interest in settling the money they owed to banks. They were allowed to use the banned notes to repay the money and get rid of the liability towards them. It was found that a defaulter in Lucknow paid Rs.3 crores all in the currencies of 500 and 1000. Therefore, demonetisation had a positive impact on the tax defaulters making them pay all the owed amount to the banks. As a result, there were good recoveries done.

- The unorganised sectors in India have experienced various changes in their sectors due to demonetisation 2016. The small-time workers such as carpenters, electricians, etc faced a gradual decrease in their jobs. From an average jobs of 20 per month, demonetisation reduced their per month jobs to just one or two. This affected their earnings to a larger extent. The contract workers were affected by their weekly payments, causing not much impact on their everyday life. Many small shop workers started adopting cashless payment mechanism in order to earn their day to day living. Thus, in a country like India going cashless is a huge challenge. With 35% of workforce in non-farm sector, many workers would not be comfortable to switch to cashless mode. Thus, the unorganised sector was affected to a larger extent, making it difficult to turn the countries transaction mechanism to cashless.

**Interpretation:**
The demonetisation in India (November 8, 2016) demonetised about 86 percent of the country’s currency. This policy made about 1.3 billion citizens to wait for India to get remonetised. Emerging from the barter system from 9000-6000 B.C, to the paper bills after A.D 618-907, India then started using notes and coins as their currency for the transactions throughout the country. These notes and coins are controlled by a centralised agency. Thus demonetisation of the currencies of Rs.500 and Rs.1000 notes had created a great impact in the history of India.

During the period of demonetisation, 85% of the workers were paid in cash. About 265 million workers were from the agricultural sector which was the most employment generating sector. According to “The Pioneer”, 98% of workforce is unskilled and only 2% is the skilled workforce in the country. The agricultural sector supports 54% of India’s working population and the average income per day of labour is Rs.200-300. The implementation of demonetisation and curbing of currencies of Rs.500 and 1000, made a huge impact on these sectors and the people dependent on it. Already, there have been two demonisations occurred previously in India. The first was on January 11, 1946 to tackle the tax evasion and black money, and later on January 16, 1978. This is the third time (November 8, 2016) demonetisation reduced their per month jobs to just one or two. This affected their earnings to a larger extent. The contract workers were affected by their weekly payments, causing not much impact on their everyday life. Many small shop workers started adopting cashless payment mechanism in order to earn their day to day living. Thus, in a country like India going cashless is a huge challenge. With 35% of workforce in non-farm sector, many workers would not be comfortable to switch to cashless mode. Thus, the unorganised sector was affected to a larger extent, making it difficult to turn the countries transaction mechanism to cashless.

Industrial estimates state that 70% of them chose cash payment. India was the first country to provide cash payment on Uber. If we look at broadband penetration for every 1000 people, only 18 have an uninterrupted system. 370 million out of 1.3 billion were un.infected internet broadband subscribers. About 60-80% of the consumption market depends on cash. Demonetisation caused a decline in India’s vehicle sales to 18.66% in December 2016. A 30% drop in demand was witnessed by garment manufacturers of Maharashtra in December. Sale of consumer goods dropped by 40-70% after demonetisation. Due to the postponement of demand, there was a corporate loss of 20-30%. The tourism industry was hit with a 60% drop in domestic bookings. The installation of point of sale machines was made. The number of online point of sale machines in December 2016 was estimated to 1,766,481. The increase in credit card transactions at point of sale terminals from October-November 2016 had been 10.18%. The increase in debit card transactions at point of sale terminals from October-November 2016 had been 68.19%. There are 1.5 million PoS terminals in India. In December 2016 digital wallet transactions grew almost four times in value and volume compared to December 2015. Transaction caused added costs increased in price and became expensive in the economy.

The currency in India is printed in four places being, Dewas in Madhya Pradesh, Nashes in Maharashtra, Myssuru in Karnataka and Salboni in West Bengal. They are then sent by the mail, trucks and helicopters to RBI vaults and then to bank’s cash chambers and then to the ATMs and banks. Money to be deposited in ATMs took a lot of time and crew during the demonetisation. Thus, cash in small payments became unavailable and it became difficult to remonetise the 6th largest economy of the world. The organised sector accounted for only 5% of the total retail markets in India. The Government of India introduced the BHIM mobile wallet application for the ease in transactions. There was a lack of confidentiality observed in the digital market or transactions. From January-February 2017, the volume of transactions at PoS terminals fell by 28.3%. The mobile banking declined by 20.7% and 21.3% in electronic transactions. Thus this stated that, shift from cash to digital transactions cannot come from demonetisation education.

Thus, the demonetisation 2016 created some major impacts on the economy.

- The state of economy was sluggish.
- Risk to growth was downward.
- Inflation was low.
The possible solutions which could be effective for the country and its economy which was affected by the act of demonetisation could be,

- Widespread of mobile ATMs to reach rural areas can be adopted. Mobile ATMs have proved to be the easiest and most impressive way during the demonetisation. This also had helped the stressed banking system to simplify their transactions. Thus special measures can be taken to spread these mobile ATMs to rural areas and the areas where ATMs are less or not present.
- Some relief could be provided to the pension holders by relaxing their withdrawal limit to the amount of their pensions. Banks can provide this infrastructural support for them.
- Employers can help their employees in providing solutions to overcome the demonetisation in accordance with the RBI guidelines. Some employers had collaborated with the banks in order to exchange the currency which also had helped the employees.
- Setting up of currency exchange desk has proved to be helpful and satisfying to most of the corporations. The employees could swap their old currency notes with valid official identity documents.
- Upgradation of ATMs making them completely functional to dispense new notes. This public private collaboration was highly appreciable by the general public.

Other reliefs were as follows:
- Toll tax collection on National Highways was ceased till November 14, 2016 and later extended to December 2.
- All the ATM charges were waived off till December 30.
- Daily ATM withdrawal limit was increased.
- Parking Charges at airports had been refrained till November 21.
- Relief had been provided to farmers with the permission to purchase seeds with old notes and there was an extension of the deadline for payment of crop insurance scheme.
- A special task force had been set up under the chairmanship of RBI deputy governor S S Mundra, to make sure ATMs across the country are ready to dispense higher denomination notes in the shortest time.
- Government Group-C employees received Rs 10,000 cash as an advance of their salary in November.

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