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Recent Scenario of Demonetization in India

Abstract

Demonetization simply means act of stripping a currency unit of its status as legal tender and it occurs whenever there is a change of national currency. It is third time in India when demonetization took place. In India current Prime Minister Mr. Narendra Modi made announcement on 8th November, 2016 at 8.17 PM that the currency notes of 500 and 1000 had been pulled from circulation and retired. The reason behind the demonetization was to control over corruption and black money. Another reason was to prevent the terrorism activity, because these are the major hurdles in the path of economic growth of a country. In world eight countries like Nigeria, Ghana, Pakistan, Zimbabwe, North Korea, Soviet Union, Australia and Myanmar that have also tried demonetization . In India demonetization has both positive and negative effect on the economy. The present paper aims to study the impact of demonetization on social and economic sector. The results show that the demonetization will make change in our economy in long run.

Keywords: Demonetization, Social, Economic and Gross Domestic Product.

Introduction

Demonetization is the withdrawal of a particular form of currency from circulation. The french were the first to use the word demonetize, in the year between 1850-1855. Since then many countries have used the word and the policy with immense restriction and discomfort, for it disrupts economics and population at large.

Review of Literature

The reviewed studies share the experiences of the different countries regarding the demonetization as **United States (1873)** one of the earliest instances of demonetization can be witnessed in United States on mandated removal of silver in favour of adopting the gold standard as the legal tender. This led to a contraction of the money supply and subsequently a five year economic depression in the country. **United States (1969)** under President Richard Nixon declared all bills above \$100 null and void, to curb the existence of black money in the nation and restores the country's sheen. The \$100 bill is the most widely circulated denomination till date. **Ghana(1982)** to reduce tax evasion and clear excess liquidity, the country demonetized its 50 cedi currency. The exercise was highly unsuccessful as the public started turning towards foreign currency and physical assets. In **Nigeria(1984)** the military government under MuhammaduBuhari started issuing new currency notes with new colours in an attempt to make the old notes obsolete. The movement aimed towards fixing a debt-ridden and inflated economy failed miserably. In **Myanmar(1987)** the military invalidated nearly 80 percent of the value of money in circulation with the motivate to curb the rising black economy. It resulted in a student demonstration followed by a government crackdown the very next year. Under the leadership of Mikhail Gorbachev **Soviet Union(1991)**, 50 and 100 ruble notes were removed from circulation in an attempt to combat the parallel economy. The removed notes formed about one third of the total money in circulation. There were economic dislocations and several soviet republics such as Kazakhstan and Ukraine were severely affected. **Zaire (1993)** under the dictatorship of Mobutu SeseSeko, successive currency reforms were rolled out. Obsolescent currency was withdrawn from the system in 1993. Increasing economic disruptions resulted in ouster of Mobutu in 1997. **Australia (1996)** In order to improve upon the security features and curb black money in the economy, the Australian government withdrew all paper-based notes replacing them with polymer-based note. This helped in making Australia a business friendly country, despite the initial costs

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incurred to manufacture polymer-based notes. In **European Union (2002)** introduction of a unified currency Euro on Jan 1, 2002 called for demonetization of the existing currencies of 12 countries under the European Union. About eight billion notes and 38 billion coins were distributed through 218000 banks, post offices and 2.8 millions sales outlets. Prior preparations starting from mid 1998 and informing the citizens well in advance resulted in this successful currency changeover. **North Korea (2010)** in order to halt black market and improve the economy, Kim Jong-Il government introduced currency changes. The move backfired as the price of necessity goods increased and people strongly resisted the move. This was followed by the murder of the finance minister. In order to stabilize its economy racked by hyperinflation **Zimbabwe (2015)**, the government decided to replace the Zimbabwe dollar with the American dollar in 2015. The move, carried out in haste turned out to be unsuccessful as most wealth holders saw the value of their accumulated savings receding. **Venezuela (December, 2016)** in order to curb the rising inflation rate that reached 425% and tackle the growing threat of the transnational mafias breeding in the country. The Nicolas-Maduro led government announced demonetization of its 100 Bolivar notes (which form 77% of the nation's cash in circulation).

India has demonetized first time on 12 Jan 1946 (Saturday), second time on 16 Jan 1978 (Monday), Third time on 8th November 2016 (Tuesday). In the first time measure did not succeed, as by the end of 1947, out of a total issue of Rs. 143.97 crore of the high denomination notes, notes of the value of Rs. 134.9 crores were exchanged. Thus, notes worth only Rs. 9.07 crores were probably demonetized, not having been presented. The results of the demonetization measure were summed up by Sir Chintaman, in his Dadabhai Naoroji Memorial Prize Fund Lectures, delivered at Bombay in February 1957. It was really not a revolutionary measure and even its purpose as a minatory and punitive gesture towards black-marketing was not effectively served. There was no administrative method by which a particular note brought by an individual could be proved as the life-savings of the hard-working man who presented it or established as the sordid gains of a black marketer. Another loophole of which considerable advantage was taken was the exemption of the princely states from scrutiny or questioning when such notes were presented by them.

In the second time, The Finance Minister H.M. Patel in his budget speech on 28 Feb 1978 remarked: The demonetization of high denomination bank notes was a step primarily aimed at controlling illegal transactions. It is a part of a series of measures which government has taken and is determined to take against anti-social elements. As the Finance minister did not say anything about the success of the exercise, one can almost guess that it did not create much impact like in 1946.

Third time in India PM Narendra Modi on November 8, 2016 announced that all currency notes

of Rs.1000 and Rs. 500 would be invalid from mid night of that day. These notes contribute 86.9% of the value of total note in circulation at that time. This time there were many reasons behind the demonetization of the currency. First, it was an attempt to make India corruption free, the second reason was to curb black money, third to control price rise, fourth to stop funds flow to illegal activities, fifth reason was make people accountable for every rupee and pay income tax. At last Prime Minister wanted to make cashless society and create a digital India.

Aim of the Study

In India the demonetization had both positive and negative effects on economy. Thus, the present paper aims to analyse the recent scenario of demonetization on social and economic sector in India.

Demonetization and Social Sector

Social and economic sectors are correlated with each other. It becomes hard to differentiate that which impact are on social sector and which one is on economic sector. The demonetization affected both sectors and an attempt has been made to differentiate the impact on both sectors separately.

Impact on Social Activities

The demonetization affected the social activities like marriage in both the ways. On positive side it helped to curb the dowry system one who demands money in cash at the time of marriages. On the other side people faced problems due to lack of cash to fulfil the ceremonies.

Shortage of Money

It is also true that small industrial units which are operated in cash economy had suffered and some jobs had been lost. Many poor daily wages workers are left with no jobs and their income has stopped because employers were unable to pay their daily wages.

Inconvenience to Common Man

It became inconvenient for the common man to exchange the money in bank. The terror of uncertainty was always in their mind so, to reduce the uncertainty government allowed hospitals to accept the old currency.

Problems for House Wives

Many Indian housewives preserve money for precaution motives so they could provide help during financial crises in their houses. The accumulated money of our respected Indian housewives is of no use until exchanged in bank and post offices.

Rush at Banks and empty ATMs

Banks were extremely over crowded by people. There were queues on ATMs and have to face same fate. Standing in long queues and returning with nothing would not please anyone.

White into Black

At the time of problem if some one had withdrawn a decent amount from his account then it would created a huge problem for him, to prove himself innocent. So, in this case instead of converting black money into white, a person has accidentally converted his white money into black.

Patience of People

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Considering all of the above points it would need a superman effort from a common man to keep his patient in balance. They faced all the problems in their routine jobs are the result of success story.

Demonetization and Economic Sector

Although the social impacts have dark side of a coin, the economic impact shows the brighter side of the demonetization.

Income Tax

The revenue in the form of taxes had been increased, the number of returns filed as on August 5, 2017 have registered a rise of 24.7% compare to growth rate of 9.9% in the previous year. The effect of demonetization is also clearly visible in the 19% growth in direct tax collection. The collection of self assessment tax under personal income tax showed a growth of 34.25%. the demonetization policy will force people to fill income tax return. Most of the people who have hiding their income are now force to fill income tax return.

Improvement in Banking System

Demonetization has also improved transmission in the banking system and led to the greater financial mobilization of saving. Banks have pared their loan rates in past nine months because they are flush with money.

Foreign Trust

After demonetization the trust of foreign investors has been raised because transparency is always welcomed, especially in the business. The decreased black money and corruption will surely help Indian government to gain trust from foreign investors.

Digital Money

The demonetization has helped the people to understand the need of digital money in current era. Now at the petrol pump and in market many sellers are accepting money via paytm.

Agriculture

Transactions in Indian agriculture sector are heavily dependent on cash and were adversely affected by the demonetization of Rs 500 and Rs 1000 bank note. All of sudden withdraw of currency affected the production in agriculture by decrease in production by 40%.

Gross domestic products and Demonetization

GDP includes eight industrial sectors. The growth rate of agriculture,manufacturing, construction, financial services and defence have been reduced in September 2017 in comparison to September 2016. While the growth rate of three industrial sectors as mining, electricity and trade-hotel transport services have been increased. It can be seen by table and graphic presentation as follows;

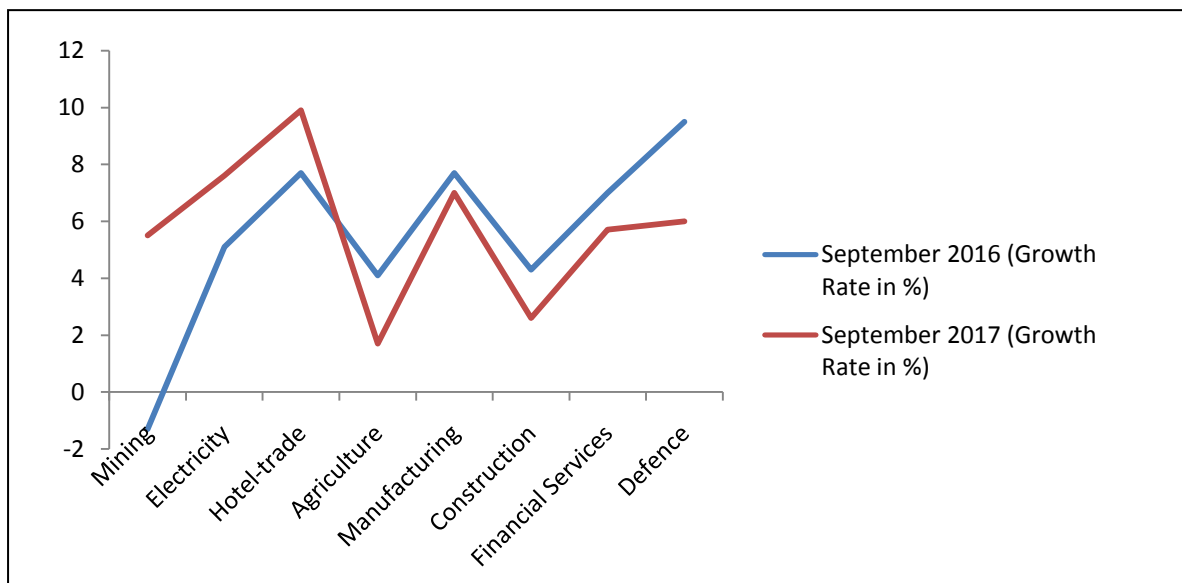
Table: 1

Sectors	Sept. 2016 (Growth Rate in %)	Sept. 2017 (Growth Rate in %)
Mining	-1.3	5.5
Electricity	5.1	7.6
Hotel-trade	7.7	9.9
Agriculture	4.1	1.7
Manufacturing	7.7	7.0
Construction	4.3	2.6
Financial Services	7.0	5.7
Defence	9.5	6.0

Source: *Dainik Bhaskar News Paper*

The above table 1 shows that the growth rate of mining which was negative 1.3% in sept.2016 becomes positive by 5.5% in sept.2017. The positive trend is also shown by electricity and hotel trade sectors while the remaining five sectors showed the decline in growth rate. It can be seen in figure-1.

**Grafic Presentation
Figure-1**



Source: *Dainik Bhaskar News Paper*

Conclusions and Suggestions

As we know that every action has both negative and positive aspects. But its up to us to decide what is more important. The result shows that quarterly growth rate of three industrial sectors as mining, electricity and trade-transport services which is considered important sectors of GDP increase in September 2017. The increasing trend shows that the dark side of demonetization is now fading and the bright side is shining in this form. Now the people understand the importance of digital money and hard money is converting by digital money. We have seen some inspiring pictures where vegetable seller is accepting money via paytm. It is not wrong to say that India is changing. Transparency is always welcomed specially in business by foreign investors. Transparency is most important gradient for foreign investors. Now Indian became able to win foreign trust because everyone like to have their money in safe hands. When a company takes decision for the investment in a product they can calculate almost every kind of expenditure except bribe. Now in digital economy will help to remove this obstacle. Demonetization is a historical step and supported by 90% of citizens. It makes differences in large extent especially terrorist activities. The ISI has been making a profit of 30-40% of face value of each counterfeit, Indian note produced in Pakistan, according to the

report. It was a major source of funding for these terrorist groups. Now all these funding will be equal to zero and demonetization is rein on terrorism. The one of objective behind the demonetization was to make country corruption free. It can be possible only when there is transparency in the work and the working process should be simple to understand for common men. More emphasis should be given to digitalization transactions. So that curb on black money may be possible. Technical knowledge and education should be given at the primary education level. Then finally there will be cashless society and dream of digital Indian can be fulfilled.

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