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ON OVERVIEW OF IMPACT ON DEMONETIZATION IN THE PRESENT SCENARIO

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ABSTRACT

With the intention of curbing black money, the Government of India announced the crucial decision regarding demonetization of 500 and 1000 notes which accounted for 86% of the cash in circulation. since the announcement in the month of November 2016, hot debates are taking place regarding the modus operandi adopted for implementing the decision, impact of the decision on the economy and the effectiveness of post demonetization measures adopted by the government. Demonetization and cash less economy in the long run will have negative impact on black money and positive impact on economic growth and development. Income earned through demonetization, if spent on various developmental activities such as roads, sanitation, health, education, employment generation, and other livelihood projects and programmes will enhance development and raise the quality of life of the people.

Keywords: Black money, Demonetization, Corruption

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INTRODUCTION

With the intention of curbing black money, the Government of India announced the crucial decision regarding demonetization of 500 and 1000 notes which accounted for 86% of the cash in circulation. since the announcement in the month of November 2016, hot debates are taking place regarding the modus operandi adopted for implementing the decision, impact of the decision on the economy and the effectiveness of post demonetization measures adopted by the government.

Everybody agree with the fact that there is a pressing need to control black money and sensible financial measures are needed for the same. Moving towards cashless economy is definitely a potential solution to address this issue and the central government is now acting in different dimension to promote digital transaction in the economy. In the global ranking also, India was rated high in corruption index. This paper helps to study the objectives of the demonetization, reason, history, benefit, impact, advantage and disadvantage.

OBJECTIVES OF THE DEMONETIZATION

This measure has been taken by the Prime Minister in an attempt to address the resolve against corruption, black money, terrorism and counterfeit notes. It includes three fold. to target

- Those who hold black money generated through illegal
- Those who fund terrorism with illegal currency
- Those create fake currency

THREE ISSUES

Businesses and firms that generated black money do not keep much of it in cash. They employ it in business and thus a chain of black transactions is set in motion. They may hold some part in assets like gold and land.

- The source of generation must be plugged.
- Corrupt officials may hoard a large part of unaccounted income in cash.
- Corrupt politicians may also keep such illegal wealth in cash and use it for elections.

REASONS FOR DEMONETIZATION

As per the Finance Ministry during 2011-2016 periods, the circulation of all notes grew 40% but the circulation of 500 and 1000 notes went up by 76% and 109% respectively. Relatively ,the economy has grown only by 30% which is way below the money circulation. The quantum of currency values circulated by RBI till March 2016 is tabulated as Table-1

Table-1 Currency values circulated by RBI

Currency Values	In Billion
2 and 5	45
10	320
20	98
50	194
100	1578
500	7854
1000	6328
Total	16415

Almost 86% of the money circulated in the market is in the form of 500 and 1000 notes. The black money in circulation is like a steroid in the economy which keeps the demand going gives a feeling that everything is working well. The problem is that investment is not taking place in the economy and the rate of growth of capital formation is down. The only

way to bring this up is to divert more funds into investments which will happen when the cost of capital comes down.

This is one of the reasons that prompted the government to demonetize 500 and 1000 notes is that their circulation was not in line with the Economic Growth.

HISTORY OF DEMONETIZATION

Year	Details
1946	1000 and 10000 notes withdrawn
1954	1000 and 10000 re-introduced . 5000 comes in
1978	Scrapped all 500 ,1000 and 10000 rupee notes
1987	500 introduced
2000	Notes of 1000 make a comeback
2014	Scrapped 500 printed before 2005 and issue new notes for old
2016	Notes of 500 and 1000 are no longer legal tender. 2000 note printed.

BENEFITS OF DEMONETIZATION

- It will check money hoarding and as a result more and more money will come to the banking system in the form of either current or savings account. The savings will push up investment and lead to capital formation in the economy.
- The opening of new bank accounts for depositing the banned currencies shows that it has promoted banking literacy among the general

population and connected the common man who was out of the net of the banking system.

- It has strengthened the banking system, as many bank branches were facing acute problem of NPA. The capabilities of banks to lend more will be enhanced which would raise investment in the economy.

- The excess income deposited in the banks can generate taxable income for the government which can

be spent on various welfare programmes for the poor in different sectors of the economy.

- During the re-monetization process the supply of money and liquidity flow to the market will be slow. It will help to control inflation in the economy.
- Money unearthed through the demonetization if spent prudently and honestly for the upliftment of the

poor will be helpful to reduce poverty and inequality in the society,

- It will promote social and cultural development in the society
- It will help the nation to achieve a real economic growth rate.

APPLICATION AREAS OF DEMONETIZATION

At an aggregate level, this move will significantly eliminate the existing stock of black money, take

currency and will benefit the currency and will benefit the economy in the medium to long run.

PARTICULARS	short term/immediate	Medium to long term
Inflation	Inflation likely to come down due to low demand owing due to liquidity crunch.	Lower demand have a lagging impact on inflation, prices may remain flat or fall in the long term.
G-Sec Yields	likely to fall as liquidity in the banking system pulls down interest rates.	likely to remain flat to positive depending on how inflation and the fiscal situation play out.
GDP Growth	to be negatively impacted by 0.5-1% due to drop in consumption	with the tax net widening due to restrictions on the cash economy, GDP likely to get a boost.
Interest rates	Banks flush with cash interest rate may come down	If demonetization encourages formal banking and more cash continues to come into the system the rates may fall further.
Fiscal deficit	Likely to have positive impact through higher tax collection and penalties	With likely increase in the size of the formal economy, tax collections would improve the country's fiscal situation
Liquidity	positive	Neutral
Currency in Circulation	negative	neutral
Current account deficit	positive	Negative
Digital payments	positive	Positive

(Source-Udit Misra, Business Standard, November 14 2016)

(i)Real Estate: With black money component in real estate deals reported to be 30-40%, property prices may fall by as much .

(ii)Construction: The sector could see migration of workers, who are paid in cash to their native places, stalling work. This could impact cement and steel sales.

(iii)Consumer Discretionary : Two wheeler and consumer durables sales like to be hit due to falling purchasing power of rural and semi urban customers.

(iv)Banks: High opportunity cost as bank employees and engaged in just deposit and withdrawal work.

(v)MFIS and NBFCS: Collection cycles likely to get disrupted due to limited liquidity and restrictions on cash withdrawal .

(vi) ACCOUNT HOLDERS: In fact, demonetization has also affected 11.4 million account holders, majority of them farmers, from 21,085 primary agricultural credit societies (PACS) at the village level, as they are barred from either exchanging old notes or receiving cash.

DEMONETISATION ADVANTAGE IN THE LONG RUN

There were two paralld economies running in India – one legal and the other under ground economy. Things will be completely under the control of legal economy, which will provide a big boost to the banking system and overall capital formation process. Because huge amount of cash will enter the bank, there is a certainty that interest rates will drop making way for a cheap and easy capital to every segment of economic activity like housing, education, farmers and industry. This will in turn increase GDP and increasing GDP will create more avenues for employment.

1 .SAFETY:

The country's currency and banking machinery knows exactly who has how much money and that such knowledge in electronic form is the safest way to secure one's wealth. Many have come to appreciate that their money in banks is safe, accessible and can be used any time and any where.

2. ELECTRONIC RECORDS

Every transactions be it conversion, deposit or withdrawal is captured in electronic records.

Additionally, CCTV Cameras across banks and ATM Centres have created enough data for improprieties to be conclusively established with hard, often irrefutable evidence. Today's technology can analyse these transactions and images in such a clinical manner that hiding the truth is no longer an option.

3. NO DIRECT IMPACT ON THE INDIAN STOCK MARKET

The demonetization has no direct impact on the Indian Stock Market because it has been fully digitalized and avoided any kind of cash transaction. Moreover any stock market transactions can be done only through demat account opened using PAN card.

4. CASHLESS ECONOMY

It is essential to have a conceptual understanding of cashless economy, in a cashless society, the financial transactions are done using cards or digital modes making the chances of physical circulation of currencies to the minimum level in a pure cashless economy, physical flow of cash is non-existent and all monetary transactions are made through electronic channel provided by banks and other financial intermediaries various modes are now available for making digital transactions like debit cards, credit cards, electronic clearing, electronic fund transfer, digital wallets etc. but in spite of the revolutionary developments taking place in this field.

Majority of the people in India are still reluctant to use these notes and prefer cash transactions. In order to move towards a cashless society the common people of the economy have to be familiarized with the various modes through which digital transactions can be made.

The use of debit cards and credit cards for making point of sale (POS) payments is one of the popular methods adopted by the public for cashless transactions government is promoting Aadhar enabled online payment system for disbursing fund in various segments. there are various digital intermediaries like paytm, free charge etc. which offers e-wallet services through which various online transactions can be simply made.

The unified payment interface (UPI). Which facilitate direct bank to bank transfers without digital intermediaries is another good options through which transfers up to 100000 can be made where it is limited to 10000 in the cash mobile wallets. Unstructured supplementary service data (USSD) is another option. Which facilitates electronic payments through featured mobile phones.

5. BLACK MONEY PARKED ABROAD

It will come back to India as Foreign Direct Investment (FDI). The Corruption Perception Index (CPI) for India is very high. But, thanks to population of 130+ crores, India has a huge market potential- to be a very lucrative market. If this measure of demonetization checks

corruption, the biggest hurdle in FDI coming to India will be removed.

The growth rate of India is going to attract FDI, so Indian money stashed abroad will come back to India in the form of FDI and not in the form of Foreign Institutional Investors/ Investments (FII). This will create a number of employment opportunities. Most transactions in the economy will be transparent and that will check the corruption. It is a linear and progressive thing to happen.

6. AUTOMATION OF INCOME TAX DEPARTMENT

Finally, with growing automation across the income tax department, the registrar of companies and banks, the financial footprint of every individual and business is captured. It is a matter of time before the right technology is applied to connect the dots and bring to book these falling foul of the law.

7. SOCIETY

Demonetisation can push society towards a greater degree of digital transactions. the Jan Dhan Yojana has helped several crores to open bank accounts with ease. Efforts should be taken to activate these accounts and help the account holders to take to transfers through modes other than cash. and also projected to make a greater use of financial instruments like cheques, online transactions, credit cards etc.

8. BANKS AND OTHER INSTITUTIONS

New payment banks and other institutions dealing with electronic payments should endeavour to expand transactions in the digital mode. It has increased the deposit base of banks and changes in lending rates and deposit rates are expected.

9. RBI

Currency notes extinguished by not presented to banks would result in higher profit to RBI. The 500 note and 1000 note together are estimated to account for around 14.5 crore. So far (upto 23 November 2016) around 6 lakh crore are estimated to have been deposited with banks and 1.35 lakh crore withdrawn.

An estimate puts an additional 4 lakh crore deposited in December leaving a little over 4 lakh crore of notes not converted into new notes. Can this result in increasing the profitability of RBI and in turn a higher dividend to the government.. and also expected to ease its monetary policy over the next few months.

10. PUBLIC

The citizens are benefited in the long run. Because their honest money stayd safe and hidden money is expected to be accounted. The possibility that legal tender could be demonetized any time, without even a signal brings in the wisdom that hoarding cash is not the best thing to do. Expectations that this would prompt the people to be honest with their taxes have grown, and in reward the government is also expected to display some leniency in tax rates.

11. TRADERS

The shortage of currency has prompted many traders to move on to credit card billing, online-sales are witnessing a boost as most of the portals use cards and internet banking for payment .

12. GOVERNMENT

There is also a view that to the extent of money not coming back (estimated at 3 lakh crore), the government may choose to print equivalent currency and pump it as equity capital into public sector banks thus seeking to meet Basel committee norms and also making good the loss from non-performing assets. This is the transfer of private wealth to public wealth. The money could also be spent on infrastructure instead of for conspicuous consumption.

Un doubtfully, the government has benefited from the money that has made its way into the formal channel.

PROBLEM/ DISADVANTAGE OF DEMONETISATION

The sudden announcement demonetization of currency notes has been a problem for common men, small scale traders daily and weekly wage earners as well as employers who pay daily wages and weekly wages. The step of demonetizing the higher denomination currency may be beneficial in the long run in curbing the parallel economy but is problematic for ordinary citizens, petty traders, small scale enterprises and pensioners. The move has to be a surprise one to eliminate any kind of exchange of black money/ unaccounted money.

(i) CITIZENS:

For the citizens, it has been a long wait to exchange the demonetized currencies;

(ii) BANK EMPLOYEES

It has been a nightmare; they seldom are able to provide 4000(the limit mentioned in Newspapers) for exchange purpose. Many could get the exchange only for 2000.this was because they ran out of cash within few hours after the exchange process started in the day and were waiting for RBI to replenish. It is a continuous work for bank employees just focusing on exchange, deposits and withdrawals. The unsuccessful customers vented their frustration on hapless bank employees.

(iii) SMALL SCALE GROCERY RETAILERS AND OTHER RETAILERS

They could not open their stores because they could not get new stock for want of cash that needed to be exchanged. It is easy for the Prime Minister and Finance Minister to say that the inconvenience for the public is Short term; but for many ordinary citizens, small scale enterprises, scale traders and daily/weekly wage earners the ability to exchange denomination

currency leads to lack of cash flow which results in issues of purchasing day-to-day products.

While focusing on eliminating black money and hoarders of huge cash, government should also implement measures to facilitate these ordinary citizens, small traders and enterprises who largely rely on cash transaction.

SUGGESTIONS

Government should focus on reforms designed to prevent the generation of illegal money in three areas:

1. Tax system should be structured with low rates and this would reduce the incentive to avoid taxes and promote greater degree of tax compliance.

2. To tone up the administrative machinery, reduce the discretionary element and make the systems and procedures transparent.

Election commission should focus on the massive use of cash by politicians for contesting elections.

WHAT SHOULD BE THE NEXT STEP?

➤ The government should eliminate cash transactions through a proper rule under the Income-tax Act.

➤ The government must announce that the RBI will progressively reduce currency in circulation by a fixed percentage each year.

➤ The revenue department should set up an audit wing directly under the revenue Secretary consisting of top auditors to carry out surprise inspections of assessments disposed of by the tax authorities.

➤ The law should be amended to provide for the summary punishment of officers found irresponsible in assessment procedures.

CONCLUSION

Demonetization and cash less economy in the long run will have negative impact on black money and positive impact on economic growth and development. Income earned through demonetization, if spent on various developmental activities such as roads, sanitation, health, education, employment generation, and other livelihood projects and programmes will enhance development and raise the quality of life of the people.

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