

Demonetization: An Overview

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Abstract

Demonetization is a tool of Government to eliminate the currency. It is used in very adverse situations. It has a great significant and immediate impact on the state of the Indian economy. This paper discusses about the move of demonetization taken by Central Government of India on 8th November, 2016 with respect to its reasons and effects on different sectors in India. The sectors cover are Micro Businesses, E-Wallet businesses, online retail stores and so on. This paper is based on secondary data collected from different newspapers and online sources, mentioned in references.

KEYWORDS: Demonetization, reasons of demonetization, sectors in India

Introduction:

Demonetization is the act of stripping a currency unit of its status as legal tender. It is a process of removing a currency from general usage or circulation of money in a country. Demonetization is an act where the old unit of currency gets retired and replaced with a new currency unit. It can also be considered as withdrawal of a specific currency from market.

History of Demonetization in India

The **first** currency ban was announced on 12th January, 1946(Saturday) by RBI headquarter. At that time currency notes of 1000 and 10,000 were totally removed from the economy. Both the notes were re-introduced in the year 1954. At that time people were given 10 days time to exchange their notes. Further that was extended to 15 days more. It had not created much effect at that time. By the end of 1947 out of Rs.143.97 crores, notes of only Rs. 134.9 crores were exchanged. Thus notes worth Rs. 9.07 were perhaps "Demonetized".

The **second** currency ban was announced on 16th January, 1978(Monday), by R. Janaki Raman a senior official of RBI. At that time currency notes of 1000, 5000 and 10,000 were removed from circulation. That time the people were given only 3 days to exchange their notes. This time around 73.1 crore was demonetized.

On 8th November, 2016 Prime Minister Narendra Modi announced the **third** demonetization. This time the currency of 500 and 1000 notes were demonetized from economy. The Government has instructed the hospitals, petrol pumps, airports etc to accept the old denomination notes till 11th November,2016. The following table shows the volume and value of currency notes in India.

Table 1 volume and value of currency notes in India.

Volume of Currency Notes			Value of Currency Notes		
Demonetization	Volume in Crore Pieces	% of all currency notes	Demonetization	Value of Rupees in Crore	% of all currency Value
2 and 5	1162.6	12.88 %	2 and 5	4,500	0.27%
10	3201.5	35.47%	10	32,000	1.95%
20	492.4	5.45%	20	9,800	0.60%
50	389.0	04.31%	50	19,400	1.18%
100	1577.8	17.48%	100	1,57,800	9.61%
500	1570.7	17.40 %	500	7,85,400	47.85 %
1000	632.6	07.01%= 24.41%	1000	6,32,600	38.54% = 86%
Total	9026.6	100%	Total	16,41,500	100%

Sources: Business line, 17/11/2017

The value of currency withdrawn under demonetization accounts for almost 86%. The coverage of this demonetization is much wider than the previous demonetizations.

Need for Demonetization

According to The RBI, the most important reason for the demonetization of 500 and 1000 rupees note was the rise of fake currencies of the same notes, and also the higher occurrence of black money in the economy. "The fake notes are being used for illegal activities by anti-nationalists like terrorists and India being a nation of a cash-based economy, the circulation of fake currency continues to be a threat. However it has been taken care by the Government that the public (people) who changed his higher value cash will get exactly the equal amount in lower denominations.

Review of Literature

MS. Angel Jasmine Shirley (February, 2017) has studied about the "Impact of Demonetization in India" in her research paper. In the first part of the paper, the impact over Indian economy had been explained. As per the research, the BSE SENSEX and NIFTY 50 stock had fallen near about 6% on the very next day. Moreover on the later on days, the country felt severe shortage of the cash. Moreover due to lack of cash overall production had decreased. Banks had not enough new currency for the exchange of the old notes, which breakdown the overall economic system. The first thing that happened after demonetization was decrement in to overall consumption of commodities which results in to decrease in the production. Moreover there was a major impact over the domestic sectors, reduction in the Government liability, farming and fishing industry, business, drop in industrial output, black money, impact over counterfeit currency, hawala, bank deposits, jewellery and real estate, IT sector etc. She said that, though demonetization is a good concept to grab the black money holders, most of black money is kept in form of land, gold, real estate etc. "Not all black money is in cash, not all cash is black money". People face too much inconveniency due to improper planning about post demonetization. Moreover for number of days they had spent their time by standing in queues.

Tax Research Team (2016) in their working paper stated in favour of demonetization Its main objective is to analyze the impact of demonetization on Indian economy. This paper shows the impact of such a move on the availability of credit, spending, level of activity and government finances.

Geeta Rani (November 2016) had presented the research paper to show the effect of demonetization over the retail outlets. She had collected primary data from 50 shopkeepers of her area. As a result she had been ready with some out comes likewise 80% shopkeeper presented their view that from 9th November, 2016 to 10th December, 2016 there was 20% increase in sales due to accepting the old notes. But after that sales had declined. Shopkeeper started paytm and cheque system. Shopkeepers had extended credit period to retain their customers.

Sherline T.I (December 2016) has undertaken the research on “Demonetization as a prelude to complete financial inclusion “. The main objective of the study was to understand the importance of demonetization as a measure of financial inclusion. Financial inclusion mainly stands for, the delivery of the financial services at the affordable cost to the low income segments of society. As per the report financial inclusion can boost the savings as well as credit availability. The study shows that this move of the Government is likely to create benefits in long term.

Chabi Gupta (December 2016) had studied about the payment banks and demonetization. To explain her research point, she had firstly explained about the Indian banking sector. Then she had explained the overall impact of demonetization move. According to the Reserve Bank Of India (RBI) figures, 500 and 1000 rupee notes jointly account for 86% of total value of currency in the economy. Many banks like HDFC, ICICI and AXIS are exploring option to launch the contact less debit and credit card. It will allow the customers to use card without swipe.

Objectives

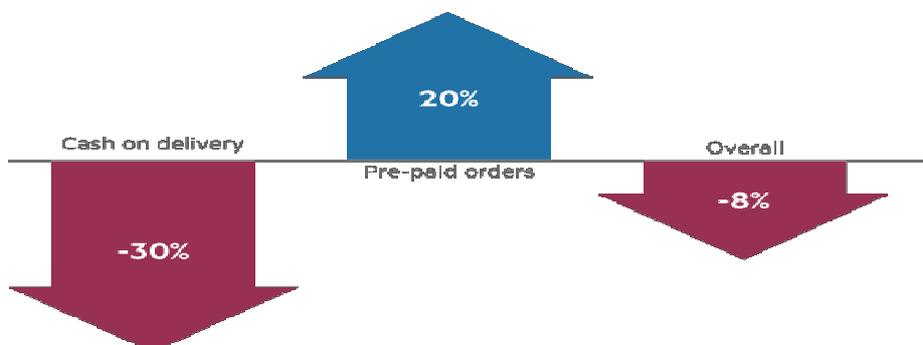
1. To understand the concept of Demonetization.
2. To study the history of demonetization in India.
3. To study the impact of demonetization on various Sectors.

Effects of Demonetization

1. Online Retailer Sectors

The demonetization hits the retailing sector of India, though there is increase in sales by cards it is lesser than the fall in cash sales. Post demonetization there is 20 per cent increase in prepaid orders whereas the cash on delivery sales dropped by 30 per cent which eventually brought the overall fall in retailing by eight per cent.

Figure 1 Showing the demonetization hit on e-commerce retailers in percentage of change in Cash on Delivery option, prepaid orders and overall change



Source: Sanjay Sethu comments at industry forum

2. Disbursement Rate Microfinance Institutes' slowdown

Micro finance institutions (MFIs) are important institutes which provide financial assistance to micro businesses. Such MFIs have saw their disbursement rate slowing after the government's decision demonetization of the notes of Rs 500 and Rs 1,000. The MFIs have acknowledged that the move may result in a delay in collection of installments from the clients in the near future. Demonetization and unavailability of cash can also have an impact on disbursement especially cash disbursement.

3. Effect on Micro Businesses

Indian Micro, Small and Medium Enterprises (MSME) sector contributes considerable share in India's GDP. But amongst all the three, medium sized enterprises have share of around one per cent and they generally use online mode for their payment and receipts. But Small and Micro, especially micro businesses faced lot of problems as most of the transactions take place on cash basis, because many people are not that educated and tech-savvy. So the move demonetization has hampered micro businesses in a bad manner resulting into slowdown in micro enterprise sector.

4. Operational Challenges

Without the availability of liquid cash in hand, the households and retail sectors are widely affected to carry out their day to day transactions like buying commodities, eatables etc. The permanent impact will be on sectors such as real estate where the transactions are largely done through cash. But on the long run, there will be a useful and positive change.

5. Behavioural Challenges

Apart from the operational challenges, there is a behavioural change expected among people to use the e-transactions options in India for making and receiving payments. This kind of transition requires two changes in behaviour: one, agents must move from tangible means to forms which are less tangible or not tangible, and second, they must learn to believe on technologically advanced tools. The later requires agents to be educated to the extent of comprehending the content of

transactions. If this transition is managed properly at any cost, agents might be tempted to move to non-official cash substitutes.

6. Banking and Non-Banking Sector

In India, currency to GDP ratio is very much high. There will be a distinct gain if the demonetization forces the society to move to digital transactions. Millions of bank accounts have been opened under Jan Dhan Yojana and remain dormant, this can be sorted out and made active. The Non-banking finance companies (NBFCs) whose main business is to lend loan to small traders and local communities face difficulties in collecting loan dues due to demonetization. Since a large part of the repayment of loans they get are in cash the demonetization has hit them hard.

7. E-wallet firms could gain good business

A digital wallet is an electronic device which allows an individual to make electronic commerce transactions like payment of bills or online bookings etc. Such E-wallets are expected to be the biggest beneficiaries of the decision of demonetization taken by central government. The examples of digital wallet in India are - Paytm, PayU India, Mobi-Kwik, and Free charge and so on. Paytm's traffic had increased by 435% and its downloads by 200%. Paytm is India's leading mobile wallet which allows users to make transactions "at 8,50,000 places across 1,200 Indian cities, including mom and pop shops, branded retail outlets, and petrol pumps

According to India-spend analysis of RBI, the mobile banking transaction had grown by 175% and the amount transacted had grown up by 369% in the past one year. There is a Three times increase in in Rupay transactions on point of sale to 10 lakhs a day, which is three times more than the normal transaction count. Post demonetization, the card transactions in India boosted up by 133%. The 120 crores worth transactions were witnessed by seven million transactions daily in paytm and 15 lakh people of India started using cards (mostly debit cards). The growth of usage of debit cards doubled after demonetization.

Conclusions:

The demonetization of the highest denomination note undertaken by the government of India is a big shock to the people of Indian. It is a remedial measure for the alleviation of unaccounted money, tax evasion, counterfeit currency and funding of illegal activities. Though it has created some negative impacts on different sectors in short-run but in long run it definitely will have positive impact in controlling black money, corruption, funding of illegal activities and fake money.

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