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DEMONETIZATION IN INDIA – ISSUES AND IMPACTS ON DIFFERENT SECTORS

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Abstract: - Recently, demonetization of all Rs 500 and Rs1000 banknotes of the Mahatma Gandhi series by the Indian government has been considered to be a master stroke for the economy of India by different experts. The main aim of demonetization is to move towards digital economy as easy monitoring of cash flow is there and there will be fewer chances to avoid tax. This step is thought to be the biggest cleanliness action to curb the black money and to stop the fund flow to the illegal activities. The move was heavily condemned as badly organized and inequitable, and was met with dissents, indictment, and strikes. This aim of this article is to summarize the merits and demerits of demonetization, its impact and various challenges on Indian economy.

Keywords: Demonetization, digital economy, black money, cash flow, Economy



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INTRODUCTION

On 8th November 2016, the Government of India declared the demonetization of all Rs 500 and Rs 1000 banknotes of the Mahatma Gandhi series. The government asserted that the action would reduce the shadow economy and crack down on the use of illegitimate and spurious cash to fund felonious activity and terrorism. The abrupt nature of the proclamation and the prolonged cash paucity in the weeks that followed and produced remarkable disturbance throughout the economy, menacing economic output. The move was heavily condemned as badly organized and inequitable, and was met with dissents, indictment, and strikes (Chobey A., 2016).

“The act of removing a currency unit of its status as legal tender is known as demonetization.” It happens whenever there is any sort of alteration in the national currency. The present forms of money are substituted with new notes or coins. Sometimes, a country entirely replaces the old currency with new currency.

The opposite of demonetization is remonetization, in which a form of remission is reimposed as judicial tender.

There are several reasons why nations demonetize their local units of currency:

- To fight inflation.
- To avert corruption and crime.
- To discourage a cash-dependent economy.
- To ease trade

1.1 Objective: The main objective of this paper is to analyze the impact of demonetization declared by present Indian government on 8th November, 2016 on different sectors.

1.2 Background of study:

This is not for the first time that demonetization has been declared by a government in a country. There were various other nations too that have attempted to change their currency in the past. Let us take a look on some of these countries:

In United States, silver was ended as the legal tender and gold standards were fully adopted. Various coins, including two-cent piece, three-cent piece, and half dime were stopped. The removal of silver from the economy resulted in the reduction of the money endowment, which

eventually led to a five-year economic misery throughout the country. In Europe, when the physical euro bills and coins were initiated, the old national currencies, such as the German mark, the French franc and the Italian lira were demonetized. However, these different currencies persisted convertible into Euros at fixed exchange rates for a while to convince a smooth transition.

In 2015, effacing the Zimbabwean dollar from the country's financial system and consolidating the U.S. dollar, the Botswana pula and the South African rand as the country's legal tender in a bid to stabilize the economy. In 1971, The United Kingdom, adopted decimal currency in place of pounds, shillings, and pence. In 1982, Ghana rolled out the resolution to demonetize their 50 cedi currency notes in order to monitor money laundering and deceit. The change was not hailed warmly, producing mayhem across the country and finally resulted in a move back to physical assets and foreign currency. Nigeria's economy crumpled after the 1984 demonetization move that did not go as planned. The military government of then President Muhammadu Buhari instigated different colored notes to rebut their old currency in order to fight black money (Pimputkar S., 2016). Around 80% of Myanmar's currency was demonetized in 1987 by the military to restraint black money, but the move resulted in a lot of demurrals and the country observed several killings. Under the governance of Mikhail Gorbachev in 1991, the Soviet Union demonetized the higher fraternity of ruble bills, the 50s and 100s. The move did not go well and resulted in takeover of Mikhail's leadership within eight months of the plan (Pimputkar S., 2016).

1.3 Methodology: This paper has taken into account secondary data collected from different published sources like journals, newspapers, reports, websites and magazines etc.

2. Demonetization in India:

The Indian government had demonetized bank notes on two antecedent junctures—once in 1946 and then again in 1978—and in both cases, the goal was to conflict tax dodging by "black money" held outside the formal economic system. In 1946, the pre-independence government hoped demonetization would castigate Indian businesses that were concealing the fortunes gathered supplying the Allies in World War II. In 1978, the Janata Party alliance government demonetized banknotes of 1000, 5000 and 10,000 rupees, again in the hopes of taming simulating money and black money. The two greatest denominations in the Indian currency system i.e the 500 and 1000 rupee notes were demonetized by the Indian government in 2016. These notes accounted for 86% of the country's circulating cash. With little warning, India's Prime Minister Narendra Modi notified to the citizens on Nov. 8 that those notes were

of no use, effective immediately and they had until the end of the year to deposit or replace them for newly introduced 2000 rupee and 500 rupee notes.

2.1 Procedure

The demonetization of the 500 Rs and 1000 Rs notes was kept strictly confidential and only ten people knew about it. The strategical operations and preparations for printing the new 500 Rs and 2000 Rs notes began in early May. The cabinet was acquainted about the demonetization on 8 November 2016 in a congregation called by the Prime Minister of India Narendra Modi which was trailed by Modi's public broadcast about the demonetization.

- **Televised address**

The Prime Minister Narendra Modi declared the demonetization live on the televised address on 8th November 2016. In the announcement, Modi made all 500 Rs and 1,000 Rs banknotes of the Mahatma Gandhi Series as invalid effective from the midnight of the same day, and exchanged them with the new notes of Rs 500 and Rs 2000. The one purpose of this action was to take action against terrorism.

2.2 Government ordinance

A 10,000 Rs fine was inflicted on the people who will use the old notes after 30th December 2016. However, Petrol, CNG and gas stations, government hospitals, railway and airline booking counters, state-government recognised dairies and ration stores, and crematoriums were allowed to accept the prohibited 500 Rs and 1,000 Rs notes until 2nd December 2016.

- **2.3 Exchange of old notes and withdrawal limits:**

- People were assembled at the ATM's of Axis Bank, Gujarat in order to withdraw the new cash and deposit the old currency. The Reserve Bank of India gave 50 days for exchanging of the notes. A limit of Rs 2000 was set initially for the withdrawal of cash. This limit was increased to Rs 4500 from 14th to 17th November and then again reduced to Rs 2000 from 18th November. All type of exchange of notes was terminated from 25th November 2016. There was a restricted limit set for withdrawal of cash of Rs 10000 per day and Rs 20000 per week.

1. Impacts of demonetization

The government's aim was to combat India's flourishing underground economy on several facades:

- To suppress counterfeit currency.
- To attack tax invasion.
- To abolish black money from money laundering and terrorist financing commotion.
- To encourage a cashless economy.

Individuals and organizations with huge amount of black money were obligated to take their large denomination notes to a bank, which was by law needed to obtain tax information on them. If the owner could not provide evidence of making any tax payments on the cash, a penalty of 200% of the owed amount was inflicted. Impact of demonetization on different sectors is given below:

Banking sector:

In the first four days after the declaration of the pace, about 3 trillion in the form of old 500 and 1,000 banknotes had been unloaded in the banking system and about 500 billion had been allocated via withdrawals from bank accounts, ATMs as well as exchanges over the bank counters. Within these four days, the banking system has handled about 180 million transactions. The State Bank of India received more than 300 billion in first two days of demonetization. From 10th to 17th November, India has exchanged and deposited more than 8.7 trillions.

Railways:

As of November 2016, Indian Railways did not have the choice to make payment with cards at the counters. After the demonetization move, the government declared to make card payment options accessible at railway counters in the country. The railways placed an order for 10,000 card reader machines in January 2017.

Agriculture:

Agreements in the Indian agriculture sector are heavily contingent on cash and were adversely affected by the demonetization of 500 and 1,000 banknotes. Due to shortage of the new banknotes, many farmers have inadequate cash to acquire seeds, fertilizers and pesticides. The demonetization led to unavailability of cash to pay for food products.

Radical groups

The Demonetization has poorly hit Maoist and Naxalites as well. The capitulate rate has reached its highest since the demonetization is declared. It is said that the money these organizations have accumulated over the years have left with no value and it has sourced them to reach to this decision. The police arrested a petrol pump owner at Ranchi for depositing illegal amount of 2.5 billion.

Black money and corruption:

It is believed that demonetization will take out black money from the Indian economy. It is forecasted by ICICI Securities Primary Dealership that the removal of INR 500 and INR 1,000 notes from circulation may dispose up to INR 4.6 lakh crore in black money thereby automatically reducing corruption.

Human trafficking:

The banned notes had led to a huge drop in sex trafficking. Satyarthi said the demonetization would be effective in conflicting misuse of children as well as corruption and would be a great hurdle to trafficker. However, 2 months later he conveyed his regret on Rs 2000 notes being pushed into human trafficking in lack of other concrete steps.

2. Major issues related to demonetization:

Cash shortage:

The shortage of cash due to demonetization led to conflicts, and most people holding old banknotes faced troubles trading them due to endless lines outside banks and ATMs across India, which became a daily pattern for millions of people holding back to deposit or exchange the 500 and 1000 banknotes since 9th November. ATM's were overcrowded and were running short of cash and maximum of the ATM's in the country were short of cash and were kept closed. Also one ration shop in Madhya Pradesh was looted as the shopkeeper refused to accept the old Rs 500 note.

Stock market crash:

The stock market saw a major downfall after the declaration about demonetization. One day after the declaration, BSE SENSEX crashed nearly 1,689 points and NIFTY 50 jumped by over 541 points.

Transportation halts:

After the demonetization was declared, about 800,000 truck drivers were affected with shortage of cash, with around 400,000 trucks stranded at major highways across India were reported. While major highway toll junctions on the Gujarat and Delhi-Mumbai highways also saw long lines as toll plaza operators declined the old banknotes.

Business:

By the second week after demonetization of Rs 500 and Rs 1,000 banknotes, cigarette sales declined in India by 30–40%, while E-commerce companies had 30% decline in cash on delivery orders. There are several other firms and organizations that largely got affected by demonetization.

Job losses:

There were job losses due to demonetization, particularly in the unorganized and informal sector and in small enterprises.

Deaths:

Many people were reported to have died from standing in lines for hours to exchange their old banknotes. Deaths were also assigned to lack of medical help due to refusal of old banknotes by hospitals. As of 15 November 2016, the attributed death toll was 25 and 33 deaths as of 18 November. Nearly 100 people has died due to demonetization.

Other issues:

Confusion developed in the cash dependent economy, long lines were formed outside ATMs and banks, which had to shut down for a day. The new rupee notes have varying descriptions, including size and thickness, requiring recalibration of ATMs. Approximately 200,000 ATMs were operational. The government's restriction on daily withdrawal amounts added to the distress, though a renunciation on transaction fees did help a bit. Small businesses and households grappled to find cash and reports of daily wage workers not receiving their dues surfaced.

3. CONCLUSION:

It is concluded that demonetization is considered to benefit the nation in the long run by relevant experts though it has some negative impacts also. Demonetization has made it

