

A Critical Review of Post Demonetisation Economic Scenario in Indian Economy

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ABSTRACT

After three years of demonetization the experts in finance, banking and economics have been debating, whether the policy of demonetisation was a successful Government venture or an utter failure. The decision to demonetize high denominated value currency notes of Rs. 500 and Rs. 1,000 was the main crux of the scheme. The idea behind the policy was to eradicate black money completely and move towards a cashless economy.

India is a cash dependent nation. For day to day transactions people use cash only. It was a big question mark that after demonetisation whether cash-dependent Indian economy will switch to digital economy? Whether Indian citizens will accept online transactions and the methodology of mobile wallets? What is the direct and indirect impact of demonetization on country's GDP, employment rate, foreign trade, taxation policy, convenience / inconvenience faced by the citizens and image of the nation in International market? After three years of demonetisation it is necessary to analyse the post demonetisation impact on many economic and non-economic sectors and areas of the country.

Keywords: Black Money, Corruption, Demonetization, Digital India, Fake Notes.

INTRODUCTION

The process of demonetisation though it was a top secret, all the procedural formalities were followed systematically before its implementation. Government of India in a notification, dated 8th November, 2016 has withdrawn the 'Legal Tender Status' of denominations of currency notes of Rs.500 and Rs. 1,000. These were the currency notes of Mahatma Gandhi Series issued by the Reserve Bank of India till that date. Hon'ble Prime Minister of India Shri. Narendra Modi announced by 8.00 p.m. on T.V. channels about demonetisation of Rs. 500 and Rs. 1,000 notes with effect from midnight of that day. The announcement made these notes invalid. The intension behind this decision was:

1. To nullify black money hoarded and stored in cash.
2. To stop funding to terrorism and illegal activities.
3. To curb the circulation of fake notes.
4. To control and minimise corruption in the country

The announcement made by the Hon'ble Prime minister that, from midnight of 8th November, 2016 Rs. 500 and Rs.1000 currency notes will cease to be legal tender. Though the status of these notes was made just papers from 9th November, 2016, honest tax payers were not put into trouble and losses. All the citizens and organisations in India holding notes of Rs. 500 and Rs. 1000 were allowed to deposit the same in their banks and post office accounts from 10th November, 2016 till 30th December, 2016.

Exactly after one year of demonetisation, i.e. on 8th November, 2017 the opposition parties protested the day as 'Black Day'. They emphasised the inconvenience caused to the nation and all citizens of India. However, to boost the policy of demonetisation, the government announced that, the day will be celebrated as 'Anti-Corruption Day'. The intention behind this research is to review the economic change brought in by government in the light of actual positive and negative changes that took place in the Indian economy.

ECONOMIC GROWTH OF INDIAN ECONOMY

All the economists were worried about the growth of Indian economy in post-demonetisation era. However, the Indian economy exhibited growth at a better scale than what it was expected. The period of April to June

2017 showed a growth rate of 5.7%. The economy showed a growth of 5.3 per cent as against the expectations of 5 per cent in July to September 2017. Though the growth was not remarkable, at least as expected by the economists, it was not on negative scale. This growth could be achieved in the range in July-September 2017 due to improved performance of mining, power sector and certain services sectors. In the second quarter the growth rate was 5.2%.

Of course, some of the sectors were badly affected as there was a direct involvement of cash only. The real GDP growth rate showed a continuous declining trend in the pre- demonetisation quarters of the financial year 2015-2016. GDP growth rates were 9.1%, 7.9% and 7.5% respectively for March, June and September quarters of 2016. The same trend continued after demonetization. The growth rate further declined to 7%, 6.1% and 5.7% in December, March and June 2017 quarters. It all happened in the post demonetization period.

CURRENCY IN CIRCULATION

The great decision to demonetise higher denominated currency notes was a part of the government's agenda to eradicate black money. The data published by Central Statistical Organisation (CSO) shows that, to some extent government was successful in this direction.

Total currency notes in circulation on 4th November, 2016, i.e. four days before the demonetisation was Rs. 17.97 lakh crores. After demonetisation, with immediate effect the currency with Rs.200, Rs. 500, Rs. 2000 were put under circulation. As per the government records on 27th October 2017 the total currency in circulation was Rs. 16.35 lakh crores. It shows that, there is a difference of Rs.1 lakh 62 thousand crore rupees. It is less than the pre- demonetisation period.

The black money identified through the policy and process of demonetisation was much lesser than what government expected. However, it is clear that, most of the black money in the country is not in form of cash itself. It is in the form of gold, silver, various assets, investments, properties and so on. Therefore, before announcing demonetisation, Indian government passed the Benami Transactions (Prohibition) Amendment Act, 2016 (BTP Amendment Act) in August, 2016. It came into force from 1st November 2016. It was the preparatory work and creation of background for the demonetisation scheme. The new law has given additional powers to government authorities to eradicate benami transactions.

INFLATION IN INDIAN ECONOMY AND DEMONETISATION

There was no direct impact of cancellation of high value currency notes on inflation in Indian economy. The statistical mean of inflationary rate of all commodities as per the 'Whole Sale Price Index' was negative before implementation of demonetisation. During the process of demonetisation it was around 3%. It recorded same in September, 2017.

The Weighted Price Index (WPI) of fruits and vegetables fluctuated in pre and post period of demonetisation. A considerable decline in the same index of pulses was observed for the same per

ROLE OF E-PAYMENTS AND DIGITAL PAYMENTS IN POST DEMONETISATION

After the implementation of demonetisation, cashless payments increased. Use of different cashless modes of transactions by the citizens of India indicated that demonetization is a step required towards digital India. After demonetisation National Electronics funds Transfer System (NEFT) became a common mode of payment. Value of transactions through NEFT system became almost double due to this. The other means of cashless payments such as debit cards, credit cards and IMPS also became very common and popular during the post demonetisation era.

PAYMENTS THROUGH M-WALLET

The use of m-wallet mode of payment for online purchases has become a common way of life. Business through m-wallet mode of payment is observed to be more than double after demonetization. According to the statistical data provided by the Govt. of India, the total value of transactions through m-wallet was Rs. 22.14 billion in January, 2016 whereas after demonetisation it increased to Rs. 83.53 billion by January, 2017. The total effect of demonetisation could not sustain. Instead of showing increasing trend, it showed decline slightly to Rs. 72.62 billion by 1st August 2017. It happened due to step taken by RBI about pumping of sufficient currency in the economy.

DEMONETISATION AND STOCK MARKET

The stock markets of the country BSE and NSE showed a great progress after demonetisation. NIFTY 50 shares also showed tremendous demand during this period. Domestic and foreign investors in the capital market never paid attention to this Govt. policy. They continued to invest on regular basis. Those who were afraid of cash dealings also came forward for the investments in share market.

BSE Sensex which settled at 27,459 points, few hours before the announcement of demonetization. It was at this stagnant level on 8th November evening 2016. After demonetisation the same reached to 33,680 on 6th November, 2017. It was a historical height achieved exactly within a year after demonetization.

On the same line a positive trend is noticed in BSE index. It increased from 8,497 to 10,443 between the same time periods.

The above remarkable growth in the stock market performance clearly shows that, the stock market never got affected by the move of demonetization.

DEMAND FOR CONSUMER GOODS AFTER DEMONETISATION

Experts in economic affairs of the nation were of the opinion that, the demand for consumer goods falls due to the shortage of new currency in post demonetization period. It was the remark given depending upon theoretical assumptions. However, after demonetisation demand for most of the goods has always shown an upward trend all the time after any such Govt. action. It had little pause when the announcement. Was made. Many companies producing consumer goods have always shown an upward trend.

DEMONETISATION AND RATE OF UNEMPLOYMENT

After demonetisation for few months crunch of money was experienced by the citizens of India. People who had income and expenditure in cash itself had no habit to use bank money or plastic money. Due to financial crisis, consumer demand has come down after demonetisation. It has directly affected industrial production adversely and it has declined. The general employment generation has been adversely affected.

In India, manufacturing sector provides highest employment opportunities. This sector provides employment to skilled and semi-skilled labourers. It has shown slowdown in general production. Due to this Industrial slowdown less new jobs are being created. In addition, lay-offs and retrenchments are also given to industrial workers.

The UN's International Labour Organisation (ILO) published its World Employment and Social Outlook Report 2017. As per this report economic growth has become slow. The rising unemployment in the year 2017 has become a negative effect of demonetisation.

BLACK MONEY AND DEMONETISATION

Eradication of black money was one of the basic objective behind demonetisation. Cash element constitutes only 6% of the black money in the Indian economy. As per reports black income has been converted into white by depositing it in 'Jan Dhan' bank accounts. Many people have deposited black money in their own individual accounts by dividing into smaller amounts. The new currency notes are exchanged through hawala rackets. Many have purchased gold, silver, diamonds on 8th November, 2016 after 8.00 pm. Many black money holders finished their black money resources by paying advance wages to employees.

The entire amount of Rs. 14.18 lac crores in Rs. 500 and Rs. 1000 currency denominations with the public has returned to the banks after demonetisation. It shows that, the extra amount which the govt. expected for by way of 2-3 lac crores was not returned. This dream of getting accounted money remained unfulfilled.

Fake currency was removed from the economic system due to demonetisation. As the black money has reduced, the prices real estate, gold, jewellery went down. However, it will be easier for the black money hoarders to store Rs. 2000 currency notes as compared to Rs. 500 and Rs. 1000 notes.

FUNDING TO TERRORIST ACTIVITIES AND FAKE CURRENCY

The reports reveal that terrorist activities in Jammu & Kashmir had a noticeable decline after the demonetisation. The incidents of stone pelting by youths reduced considerably. The demonetisation has cut-off funding to terror activities.

Demonetisation has resulted into extinguishment of fake Indian currency notes printed in Pakistan. This has controlled the activities of the hawala operators. Demonetisation has caused lag of communication among the Maoists. They use to deposit cash into bank accounts of poor villagers to use them for activities against the nation.

ACCEPTANCE FROM GENERAL PUBLIC

According to the survey findings of Nihilent Analytics around 66% of people showed support for Modi's demonetisation decision. 22% were against the idea of demonetisation and were of the opinion that it has caused inconvenience to the people. 12% of the people were unable to explain their views.

Those who use to hoard the black money in cash were the main critics due to their personal losses. But in general people were in favour of this 'Clean India' policy.

CONCLUSIONS

The demonetization drive of the Government of India indicates a multi-dimensional impact on various social, political and economic issues. The policy does not affect the economy as is expected. Rather it was wrongly given publicity by experts and political parties. Various international institutions predicted a temporary lull in the economy. However, in long run it is expected that, the decision will definitely going to be proved rational, balanced and correct. Presently, the economy is not much affected with the move of the government. The positive impact of demonetization as it is expected by the government needs some more time to assess, evaluate and establish.

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