

DEMONETISATION: A BOON OR BANE

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INTRODUCTION

On November 8, 2016, the Indian government surprised its citizens by devaluing high-value currency. The Indian economy was thrown into disarray by the three main surprises of 2016, namely Brexit 2016, Donald Trump's victory, and India's demonetization. According to the Reserve Bank of India's (RBI) Annual Report 2015-16, the total value of bank notes circulated in India was Rs. 16.42 trillion, with almost 86 percent of these bank notes being of the Rs. 500 and Rs. 1000 denomination. The Indian economy came to a halt as a result of the demonetisation of such high-value notes.

CASH IS KING

Cash is king in India's informal economy, which employs roughly 80% of the population. There are 21000 unorganised marketplaces in the industry, with 38.3 million small and medium-sized businesses. In India, small shops (Kiranans) account for roughly 92 percent of the commerce in fast moving consumer goods (FMCG). Because the note ban was unexpected and unforeseen, it caused significant inconvenience to the working class and daily wagers. The working class was unaffected by previous attempts to demonetize the notes in 1946 and 1978 because less than 5% of the population had access to those high-value notes 4. Because the outcome is uncertain, the current move to outlaw cash is a brave and daring action to take.

STATEMENT OF THE PROBLEM

Corruption, the black economy, and state-sponsored terrorism have all been serious roadblocks to India's economic development since independence. In the 2015 International Corruption Index, India was ranked 76th out of 168 countries. Furthermore, between April 2014 and November 2016, an Income Tax raid found roughly Rs. 31,277 crore in illicit money and Rs. 2164 crore in unreported assets 5. According to the RBI's Annual Report 20166, approximately 6.5 lakh phoney higher-value notes were in circulation. Since 2013, terrorism has wreaked havoc in 205 of India's 6087 districts, and such acts are becoming increasingly common. This prompted the Indian Army to launch surgical strikes on its adversaries. The Indian terror networks are funded via the Fake

Indian Currency Notes (FICN) network. As a result, India has lost almost 707 lives and over 3200 people have been injured. As Rome was not built in a day, the recent round of demonetisation was a long time coming. Finally, on November 8, 2016, the government declared a cash ban, anticipating short-term suffering in exchange for long-term benefits to society.

TRANSIENT IMPACT OF DEMONETIZATION

The Indian commercial eco system has been thrown into disarray as a result of demonetisation. Cash-heavy industries were effectively shut down. The rural population has been losing jobs. People who are poor or working have been relocated, and their livelihoods have been irreversibly affected. Farmers were unable to purchase inputs, while private clinics refused to treat patients who just had old bills. Some members of the working class were unable to purchase food and were forced to embrace a one-meal-per-day diet. Weddings and other social gatherings were disrupted because the working class lacked access to the institutional infrastructure required to adopt shock doctrine economics.

DEMONETISATION AND EMPLOYMENT

Job creation has always been a difficult task for the government, even before demonetization. More jobs were lost as a result of the cash prohibition in many areas of the economy. Nearly 2.5 lakh workers in the leather industry and 15% to 20% of daily wagers in the jewellery business have lost their jobs. In Gujarat, the majority of ceramic tile factories have shut down. More than 20,000 diamond workers in Surat have lost their jobs. Demonetisation causes a reversal of labour mobility, resulting in the loss of millions of people's salaries. According to CPI's Sitaram Yeicherury, four lakh jobs have evaporated since the 8th No. 2016 and more than 31.9 million textile workers have gone without pay. Following demonetization, the All India Manufacturers Association (AIMA) predicted a 60 percent decline in employment and a 55 percent drop in revenue for its member units. Due to a liquidity shortage, the Indian infrastructure sector suffered a 35 percent reduction in employment.

The Indian job market has benefited from the 2017-18 budget. Budget specifically suggests employment for young in tourism, footwear, leather, textile, and manufacturing industries, according to Teamlease's Rituparna Chakraborty. The reduction of company taxes from 30% to 25% will result in an increase of 5 to 10% in employment. As a result of the increased focus on

infrastructure, employment in the sector is expected to increase. Digital payments also support the growth of jobs in the cyber security and related industries.

DEMONETISATION AND INVESTMENTS

According to a World Bank report, India's capital formation has been declining since 2011. Furthermore, Demonetisation has thrown the flow of investments into disarray. Following demonetization, new investments dropped by 50%. Prior to the cash restriction, there were 227 investment offers; by December 31, 2016, there were only 177. During this time, the value of investment proposals fell from Rs. 81.8 lakh crore to Rs. 43.7 lakh crore. In 2016-17, the Private Final Consumption Expenditure (PFCE) decreased from 7.5 percent in 2015-16 to 5.5 percent.

However, the government's commitment to macroeconomic stability, such as lower inflation, lower bank and deposit rates, and a substantial reduction in the current account deficit, have become strong underpinnings for India to attract additional investment. In January 2017, the West Bengal government received investment offers worth Rs. 2.35 lakh crore. In addition, the Union Budget 2017-18 set the path for a strong investment climate in the Indian economy.

DEMONETISATION AND GDP

The reduction of the money supply causes the GDP to slow down. The Indian government has cut its GDP forecast for 2016-17 from 7.6% to 7.1 percent. Furthermore, the International Monetary Fund (IMF) has cut its 2016-17 GDP prediction for India from 7.5 percent to 6.6 percent. Dr. Montek Singh Ahluwalia, former Deputy Chairman of the Planning Commission, predicted that India's GDP would grow by 5% to 5.5 percent in 2016-17, owing to demonetization. However, the American rating agency "Fitch" forecasted India's GDP at 6.9% for fiscal year 2017, down from 7.4% previously. The GDP was also downgraded to 6.8% in FY 17 by the Indian rating agencies ICRA and CARE.

Demonetization, according to CMIE's Mahesh Vyas, will slow India's GDP growth to 6% per year for the next five years, starting in 2017-18. However, the 2017-18 budget said that Demonetisation will result in a clear and larger GDP because the effect of the cash prohibition is not projected to spill over into the next fiscal year. For 2017-18, GDP growth is expected to range from 6.75 percent to 7.5 percent. Budgeted capital expenditures have been increased by over 25%. In 2017-18, the

fiscal deficit was 3.2 percent, and in 2018-19, it was 3 percent. For the 2017-18 fiscal year, the revenue deficit is 1.9 percent. In January 2017, the FOREX reserve stood at \$361 billion, enough to cover the import bill for the next 12 months.

DEMONETISATION AND RUPEE

The value of a currency is determined by its demand and supply. Rupee has fallen by 1.69 percent since demonetization, from Rs. 66.63 to Rs. 67.75 on December 15, 2016. This downward tendency will continue until full currency circulation is restored. Currency circulation decreased from 11.8 percent on November 4, 2016 to 6.5 percent on January 20, 2017. From November 7, 2016 to December 12, 2016, the US Federal Reserve raised its interest rate from 0.5 percent to 0.75 percent, resulting in a money outflow of almost \$1.4 billion from the Indian stock market. Furthermore, during the same period, FOREX reserves fell from \$367.04 billion to \$359.67 billion. From February 1, 2017, the cash withdrawal limit for current accounts was increased. By the end of February 2017, the cash withdrawal limit for savings bank account holders is likely to be eliminated. The cessation of such transitory hardship will boost money circulation in the immediate future, benefiting the rupee. Donald Trump's protectionist policies, as well as a change in the US Federal Reserve's interest rate strategy, have all contributed to the dollar's strengthening. On January 27, 2017, the RBI set the reference rate for the rupee at 68.2043 versus the US dollar.

DEMONETISATION AND REAL ESTATE

Real estate in India is a cash-intensive business. Furthermore, for the previous three years, the sector has been experiencing a slump. In Mumbai, property registration has dropped by roughly 37% since demonetization. The rate of home sales had dropped by 50%, and the price had dropped by 20%. The Union budget for 2017-18 has put a lot of emphasis on real estate, which is positive for home purchasers, developers, and investors. The proposed infrastructure status for affordable housing, which includes a vow to build one crore rural dwellings in the next two years, has given India a boost. The infrastructure status to reality, according to Sunil Rohokale of ASK Group, offers up a number of options for raising finance domestically from insurance firms and pension funds. Smart Cities, Housing for All by 2022, AMRUT, the Real Estate (Regulatory and Development) Act, and the Benami Transaction Act, as well as the GST Act, would increase openness in the sector. However, pricing is a big issue for all industry stakeholders.

DIGITALIZATION AND DEMONETISATION

When compared to the United Kingdom, the average number of card transactions per person in India is only 6.7. (201.7). India is becoming known as the "Digital India." It is now on the verge of a tremendous digital transformation. The government had anticipated that a large share of unlawful assets were held in high-value currencies. Around Rs. 14.97 trillion in banned notes were deposited in banks as of December 30, 2016, accounting for 96.5 percent of total banned notes. It indicates that only Rs. 54,000 crore in notes were not returned. There are Rs. 80,000 crore in loan repayments, Rs. 25,000 crore in inactive accounts, Rs. 16,000 crore in co-operatives, and Rs. 13,000 crore in Regional Rural Banks among the 96.5 percent deposits. Moreover, during the period, more than Rs. 2 lakh was placed in each of the 60 lakh bank accounts. The goal post of the cash prohibition was transferred to the digital economy since locating black money in the muck takes time. In general, the cash-driven economy led in the accumulation of black money. Digitalization improves the speed, formality, and accountability of services. In the post-democracy period, the number of mobile wallet transactions each day increased by 12 times. People began to adopt digital methods even for modest charges as the average transaction value fell from Rs. 750 to Rs. 500. During post-shock therapy, "PayTM" increased threefold and "Oxygen" increased 160 percent. The rural population has begun to accept digital payments using mobile wallets. To encourage consumers to use the digital means of payment, specific tax benefits and rewards are presented.

INDIAN STOCK MARKET - POST DEMONETISATION

The precision hit on black money, in fact, undermined investors' faith. The BSE SENSEX fell by 6% the next day after the cash ban was implemented. The stock market volatility created uncertainty in nothing but buying opportunities, as Warren Buffet aptly observed, "be scared when others are greedy." On January 27, 2017, the BSE SENSEX posted its greatest weekly increase in eight months, up 0.63 percent. During that weekend, the Nifty gained 0.45 percent. Demonetisation, according to Porinju Veliyath of Equity Intelligence India, had a long-term positive influence on India's formal economy. To compete with the informal sector, the formal sector must rely heavily on stock market investments. The tax exemption for long-term capital gains from shares was maintained in the Union Budget 2017-18, which boosted the BSE SENSEX by 485.68 points and the Nifty by 155.1 points on the day of the budget.

TABLE 1.1: SIMPLE MOVING AVERAGE PRICE OF BSE SENSEX BEFORE AND AFTER DEMONETISATION

Name of the Company	10-06-2016 to 26-01-2017 average 100%	29-07-2016 to 26-01-2017 average	%	09-12-2016 to 26-01-2017 average	%	Market price on 27-01-2017 average	%
Adani Ports	248	262	112.10	278	122.58	304	105.65
Asian Paints	1015	1041	90.64	920	95.57	970	102.56
Axis Bank	512	519	89.84	460	92.38	473	101.37
Bajaj Auto Ltd	2702	2761	98.78	2669	105.63	2854	102.18
Bharti Airtel Ltd	335	329	93.73	314	96.72	324	98.21
Cipla Ltd	545	558	104.59	570	106.42	580	102.39
Coal India Ltd	311	317	97.43	303	102.25	318	101.93
Dr. Reddy's Laboratories Ltd	3133	3159	98.63	3090	95.60	2995	100.83
GAIL (India)	399	408	108.77	434	120.80	482	102.26
HDFC Bank	1208	1232	99.50	1202	106.95	1292	101.99
Hero Motocorp	3188	3253	96.96	3091	100.88	3216	102.04
Hindustan Unilever Limited	869	870	95.40	829	98.50	856	100.12
HDFC	1284	1319	96.96	1245	107.01	1374	102.73
ICICI Bank	254	260	102.36	260	107.09	272	102.36
Infosys	1076	1031	90.43	973	87.55	942	95.82
ITC	240	245	98.75	237	107.08	257	102.08
L & T	1424	1452	96.63	1376	101.12	1440	101.97
Lupin Ltd.	1530	1530	96.93	1483	97.52	1492	100.00
M&M	1334	1336	896.85	11964	93.85	1252	100.15
Maruti Suzuki	4842	5148	109.60	5307	122.18	5916	106.32
NTPC Ltd	154	158	106.49	164	115.58	178	102.60
ONGC	166	175	118.07	196	123.49	205	105.42
Power Grid Corporation of India	171	179	109.94	188	119.88	205	104.68
Reliance Industries Ltd	1021	1033	101.67	1038	100.39	1025	101.18
State Bank of India	234	248	108.97	255	113.68	266	105.98
Sun Pharmaceutical Industries Ltd	745	730	88.46	659	86.04	641	97.99
Tata Consultancy Services Ltd	2433	2399	93.22	2268	96.92	2358	98.60
Tata Motors Ltd	483	505	99.59	481	112.22	542	104.55
Tata Steel Ltd	376	390	110.90	417	124.73	469	103.72
Wipro	508	494	91.73	466	91.73	466	97.24

Source: WWW.BSE30 Sensex.com

The simple moving average prices of the BSE SENSEX before and after the demonetisation push are shown in Table 1.1. The average prices of BSE SENSEX 30 shares 50 days, 150 days, and 200 days from the market price on 27.01.2017 were used in the study. During the study period, the prices of Asian paints, Axis bank, Bharti Airtel, Dr. Reddy lab, Hindustan Unilever, Infosys, Lupin Ltd., M&M, Sun Pharma, TCS, and Wipro fell somewhat.

CHALLENGES UNLEASHED BY DEMONETIZATION

The total transaction cost of Demonetisation, including GDP losses, is estimated to be around Rs. 4.3 trillion, according to CMIE. The elimination of corruption, black money, and terrorism, on the other hand, is significantly more critical. Demonetisation, according to the Central Board of Direct Taxes (CBDT), may not be a solution to the black economy. Because black assets are mostly held in the form of benami properties and bullion in and out of India, this is the case. The tax officials conducted 556 surveys, 253 searches, and 289 seizures during the cash ban. They seized Rs. 112.29 crore in new high-denomination currency as well as Rs. 18 lakh in counterfeit new currency. Between 2004 and 2014, almost 75% of funds officially declared as received by Indian political parties came from unknown sources. Such contributions contribute to the development of industrial lobby groups in our legislature. The involvement of the industrial lobby may be linked to the unexpected large-scale land purchase outside potential smart cities prior to November 8,

2016. It has been shown that 1% of the population controls 58 percent of GDP, which goes against the ideology of preventing economic power concentration in a few hands. It is worth noting that the economic offenders purchased over 4 tonnes of gold in the 48 hours following the announcement of the note ban on November 8, 2016. The government must act quickly to execute the Benami Transaction Act, the Real Estate (Regulation and Development) Act, bank reforms, informal sector restructuring, and the speed of ongoing digital payments, as well as ensuring cyber security.

In a country like India, where inequality is still significant, the government must ensure that both the formal and informal sectors coexist. Between 2013 and 2015, 29 state-owned banks wrote off Rs. 1.14 lakh crore in bad debts, with farmers anticipated to benefit. The number of farmers who commit suicide has been on the rise recently. As a result, openness and accountability must be strictly enforced across the board. In Indian public sector banks, the RBI's Corporate Governance Reforms of 2015 must be fully implemented on a continuing basis with necessary changes.

CONCLUSION

The success of Demonetisation is determined by how it is carried out. Demonetisation was implemented by the Union of Soviet Socialist Republics (USSR) in 1991, resulting in the formation of the Commonwealth of Independent States (CIS). In North Korea, such a move resulted in people becoming homeless, while in Nigeria, a cash embargo in 1984 ended in the country's economy collapsing completely. The government machinery was acknowledged to be unprepared to face the challenges of a cash constraint when it was introduced. During the first three weeks after the announcement, there were roughly 62 amendments and notifications. Consumer confidence has been severely damaged, necessitating a comprehensive approach to stimulate domestic demand by increasing the purchasing power of the working class. India is wealthy, yet its people are poverty. As a result, a constant but modest rate of inflation is always necessary to protect the poor Indians who gamble on a daily basis.

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