

A BOON OR A BONE FOR DEMONETIZATION

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ABSTRACT

Despite the fact that the think-tank had effectively prepared the implementation of demonetization, it was announced in an unanticipated manner. Forced unemployment was a major repercussion of the cash prohibition on the economy. An estimated 80 percent of all jobs in India were lost as a result of the disaster. Because of the reverse movement of the workforce, they had to start eating three meals a day instead of two. About 2.5 lakh employees in the leather business, 20,000 in the diamond industry, and 15% to 20% of the daily wagers in the Jewel sector have lost their jobs. The GDP projection for the year 2016-17 was cut from 7.6 percent to 7.1 percent by the Government. As a result, the IMF has cut its 2016-17 GDP prediction to 6.6 percent. After the restriction on new cash investments, new investment plummeted by half. On December 15, 2016, the value of the rupee fell 1.69 percent. As a result, investors' faith in the stock market was shattered in the early stages of the operation. The loss in GDP is included in the cost of demonetization, which is estimated as Rs. 4.3 trillion. But economists described it as akin to shooting cannonballs at insects, which the government thought was short-lived. A long-anticipated move to combat black money, demonetization, has finally arrived. It is imperative that all other relevant actions be taken in a timely manner to ensure that the cash ban is a huge success.

KEYWORDS

Demonetization, Brexit 2016, fake Indian currency notes network, private final consumption expenditure, cash centric, AMRUT, RERA, Benami Transaction Act, CBDT, industrial lobby, cyber security, USSR, CIS, corporate governance reforms.

Introduction :

On November 8th, 2016, the Indian government surprised its people by abolishing high-value money. The Indian economy was shaken by Brexit 2016, Donald Trump's victory, and the country's demonetization, three major shocks of 2016. There were 16.42 trillion rupees worth of bank notes in circulation in India in 2015-16, with Rs. 500 and Rs. 1000 bank notes accounting for roughly 86% of the total. Due to the demonetization of such large denomination notes, India's economy came to an almost complete standstill.

CASHISKING

Cash is the primary mode of payment in India's informal sector, which accounts for over 80% of all employment. 21000 unorganized marketplaces, 38.3 million SMEs: this is the sector's make-up! Petty shops (Kirana's) in India account for 92 percent of the transaction in FMCGs (Fast

Moving Consumer Goods). Due to the unexpected and unplanned nature of the note ban, daily wagers and the working class were greatly inconvenienced. Since just 5% of the population had access to the high-value notes in 1946 and 1978, those prior efforts to demonetize the notes had little effect on the working class. Due to its unclear consequence, the recent ban on cash is a bold move and a risk worth taking.

STATEMENT OF THE PROBLEM

Corruption, the black economy, and state-sponsored terrorism have been key roadblocks to India's economic development since independence. As an example, India ranked 76th on the 2015 International Corruption Index. A total of almost Rs. 31,277 crore in black money and Rs. 2164 crore in hidden assets were uncovered during the Income Tax raids conducted between April 2014 and November 2016. According to the RBI's Annual Report 2016,6 almost 6.5 lakh bogus notes of greater value were in circulation. There have been more than 200 terrorist attacks since 2013, and these occurrences are becoming more regular. This prompted the Indian Army to carry out a series of targeted strikes against its foes. Indian terrorist organizations are receiving financing via the network of fake Indian currency notes (FICNs). Almost 707 people have been killed and more than 3200 have been wounded as a result of this. In the same way that Rome wasn't constructed in a day, the current round of demonetization was a long-awaited event. On November 8, 2016, the government finally announced the cash ban, foreseeing the short-term hardship for the long-term benefit of society.

TRANSIENT IMPACT OF DEMONETIZATION

The Indian business eco-system has collapsed as a result of demonetization. Sectors reliant on hard currency were all but shut down. People in rural areas lost their jobs as a result. People who are poor and working have been displaced and their livelihoods have been irrevocably ruined. Private hospitals refused to treat patients with just outdated notes since farmers couldn't afford inputs. Some of the working class found difficulty in buying food and forced to adopt a meal per day. Because the working class

did not have access to the institutional set up necessary to embrace this shock doctrine economics, social activities like weddings and other celebrations were put on hold.

DEMONETISATION AND EMPLOYMENT

Even before demonetization, the creation of new jobs was a difficult task for the government. More jobs were lost as a consequence of the prohibition on cash transactions. An estimated 2.55 million people in the leather business and 15 to 20 percent of daily wagers in the jewelry industry lost their jobs⁸, according to statistics. Gujarat saw the majority of its ceramic tile manufacturing facilities shut down. More than 20,000 people in the diamond industry lost their jobs in Surat. Millions of individuals have lost their jobs as a consequence of the demonetization, which causes many to relocate to other countries. According to CPI's Sitaram Yechury, over 31.9 million textile workers have gone without pay since the 8th of November, 2016. Post-demonetization, the All India Manufacturers Association (AIMA) predicted a 60% decline in employment and a 55% drop in income for its member companies. The funding shortage in India's infrastructure industry resulted in a 35% reduction in employment¹⁰.

In India's employment market, the Budget 2017-18 had a beneficial influence. In the words of Team lead's Rituxan Chakraborty, the government's budget directly supports job opportunities for young people in the tourist industry, footwear, leather, textile, and manufacturing sectors. 5 to 10 percent more jobs would be created if company taxes are reduced from 30 percent to 25 percent. As more money is invested in infrastructure, more jobs will be created in the industry. In addition, the digital payments support the development of jobs in the cyber security and linked sectors.

DEMONETISATION AND INVESTMENT

There has been a declining trend in capital creation in India since 2011, according to World Bank data. As a result of Demonetization, the flow of investments has become unclear. After demonetization, new investments decreased by 50%. Prior to the cash restriction, there were 227 investment proposals. As of December 31, 2016, there were 177. There was a significant decrease in the value of investment proposals over the time period. To put it another way, from 2015-16 to 2016-17 private final consumption expenditure (PFCE) decreased by a total of 5.5%.

Government commitment to macroeconomic stability, such as decreasing inflation and bank rates and deposit rates and sharply reducing the current account deficit

became solid underpinnings for India to attract additional investments.... On January 12, 2017, the West Bengal government received investment bids totaling Rs. 2.35 lakh crore. In addition, the 2017-18 federal budget helped to create a favorable investment climate in the Indian economy.

DEMONETISATION AND GDP

The decrease in money supply has a negative impact on GDP. Indian authorities also cut their forecast for GDP growth in 2016-17¹³, bringing the figure down from 7.6 percent to 7.1 percent. A further cut in the IMF's Indian GDP prediction from 7.5% to 6.6% for 2016-17¹⁴ has also been made by the organization. The previous Deputy Chairman of the Planning Commission, Dr. Montel Singh Ahluwalia, also predicted that India's GDP will grow between 5% and 5.5 percent in 2016-17, mostly owing to the demonetization. For fiscal year 2017¹⁵, the American Rating Agency "Fitch" predicted India's GDP growth to be 6.9 percent, down from 7.4 percent before. Economic growth in FY17 is expected to be 6.8%, according to Indian rating agencies ICRA and CARE. Because to demonetization, India's GDP growth would slow to 6% annually over the next five years, according to CMIE's Mahesh Vyas¹⁶. Demonetization was described in the 2017-18 budget as bringing clear and larger GDP since the effects of the cash prohibition are not projected to last into the next year. For 2017-18, GDP growth is expected to range from 6.75 percent to 7.5 percent. The budget for capital expenditures has been boosted by about a quarter of a percent. In 2017-18, the deficit is 3.2%, and in 2018-19, it is 3.0%. There is a 1.9 percent shortfall in revenue for the year 2017-18. In January 2017, the FOREX reserve was at \$361 billion, enough to meet the country's import bill for the following year.

DEMONETISATION AND RUPEE

Currency's value will be determined by its demand and supply. The rupee has fallen by 1.69 percent after demonetization, from Rs. 66.63 to Rs. 67.75 on December 15, 2016. Currency circulation will continue to decline until that happens. On November 4, 2016, the percentage of money in circulation was 11.8 percent; on January 20, 2017, it was 6.5 percent. More than \$1 billion in foreign investor funds were withdrawn out of the Indian stock market between November 7, 2016, and December 12, 2016, due to the rise in US Federal Reserve interest rates. The FOREX reserve fell from \$367.04 billion to \$359.67 billion during the same time period¹⁸. For current accounts, the cash withdrawal restriction was abolished on February 1, 2017. Cash withdrawal limits for savings bank account holders are expected to be eliminated by the end of February 2017. The end of such transitional pain will augment the money circulation in near future which

has positive impact on Rupee. Donald Trump's protectionism and the US Federal Reserve's interest rate policy shift have both contributed to a rise in the USD's value. On January 27, 2017, the Reserve Bank of India (RBI) set the reference rate for the Indian rupee at 68.2043 to the US dollar.

DEMONETISATION AND REAL ESTATE

Cash is king when it comes to Indian real estate. For the previous three years, the industry has been experiencing a decline. The number of properties in Mumbai that have been registered has dropped by roughly 37% after demonetization. The price of a property had dropped by 20%, but the sales rate had dropped by 50%. Real estate has received a lot of attention in the 2017-18 federal budget, which is excellent news for homebuyers, developers, and investors. Affordable housing, including a vow to construct one million rural dwellings in the next two years, has been given infrastructure status by the Indian government. Insurers and pension funds would be able to provide financing more easily now that the state of infrastructure is closer to reality, according to Sunil Rookie of the ASK Group. The policies like Smart Cities, Housing for All by 2022, AMRUT, Real Estate (Regulatory and Development) Act, Benami Transaction Act including GST Act will bring more transparency in the sector. However, price is a big issue for all industry participants.

DIGITALIZATION AND DEMONETIZATION

Compared to the United Kingdom, the average number of card transactions per person in India is only 6.7. (201.7). It's happening now: India is becoming an online India. In the midst of a digital revolution, the world is now. The government had anticipated that high-value cash made up a considerable share of unlawful assets. About 96.5 percent of the entire number of prohibited notes have been deposited into banks as of December 30, 2016, totaling about Rs. 14.97 trillion. It indicates that just Rs. 54,000 crore notes were returned. Among the 96.5 percent deposits are Rs. 80,000 crore in loan repayments, Rs. 25,000 crore in inactive accounts, Rs. 16,000 crore in co-operative deposits, and Rs. 13,000 crore in deposits with Regional Rural Banks. In addition, approximately 60 million bank accounts had more than Rs. 2 lakh deposited in them during the period²⁰. The purpose of the cash prohibition was switched to the digital economy since discovering black money in the mess takes time. Black money accumulated as a consequence of the cash-driven economy. The digitization of services has made them more efficient, formal, and responsible. After demonetization, the number of mobile wallet transactions per day increased by 12 times. Due to the decrease in

average transaction amount from Rs. 750 to Rs. 500, consumers began to adopt digital methods even for little outings. Oxygen and Paytm saw a three-fold and 160% increase, respectively, after the shock treatment. Mobile wallets are becoming more popular among the rural populace. People are more likely to use digital payment methods if they are granted tax breaks and other incentives.

CHALLENGES UNLEASHED BY DEMONETIZATION

Total transaction costs, including GDP losses, are estimated to be over Rs. 4.3 trillion²³. But the most essential thing to do is to get rid of all forms of corruption, black money, and terrorism. When the Central Board of Direct Taxes (CBDT) issued a report in 2012, they said that Demonetization may not be a solution to the illicit economy. Due to benami properties and other forms of gold bullion, most black market assets are based in India.

Tax officials have performed 556 surveys, 253 searches, and 289 seizures as a result of the cash prohibition. In addition, they found Rs. 112.29 crore in new high-denomination currency and Rs. 18 lakh in phony currency. Between 2004 and 2014, more than 75% of the donations collected by Indian political parties came from unreported sources. An industrial lobby has been created because of these contributions. Industrial lobby²⁴ may have had a part in the purchasing of vast amounts of land outside of prospective smart cities prior to November 8, 2016. It has been reported that 1% of the population controls 58% of GDP, which goes against the ideology of preventing economic power from being concentrated in a few hands. In the 48 hours after the Nov. 8 announcement of the note ban, over 4 tons of gold were acquired by economic criminals. While ensuring cyber security, the federal government must move quickly to implement the Benami Transaction Act, Real Estate (Regulation and Development Act), bank reforms, and other measures aimed at reshaping the unregulated informal sector.

India's government must guarantee that the official and informal sectors coexist peacefully in this nation with great inequality. A total of Rs. 1.14 lakh crore in bad loans owed to farmers by 29 state-owned banks between 2013 and 2015 was written off. Suicides among farmers have been on the rise recently. This means that accountability and openness must be strictly enforced throughout the board. Indian public sector banks must put into practice the RBI's 2015 Corporate Governance Reforms in a way that is both consistent and responsive to changing circumstances.

CONCLUSION

Demonstration's success relies on how it is implemented. After introducing Demonetization in 1991, the United Soviet Socialist Republic (USSR) created the Commonwealth of Independent States (CIS) (CIS). Many individuals were left homeless by North Korea's prohibition on cash, while the collapse of the Nigerian economy as a consequence was catastrophic. A financial shortage was enacted, and the government's apparatus was found to be unprepared. During the first three weeks of its introduction, roughly 62 changes and notifications were made. By boosting the purchase power of the working class's purchasing power in order to enhance domestic consumption, the consumer's confidence has been totally restored. Indians remain impoverished despite the country's wealth. Indians who gamble every day need a constant yet low inflation rate to safeguard them.

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