

# Demonetisation and It's Impact of on Common Man

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**Abstract:** *This paper presents a review of demonetization and its effect on the life of a common man. Demonetization refers to discontinuing of current currency units and replacing those currency units with new currency units. It is a major decision and its impact on all the citizen of the country because overnight all the money you have become a piece of paper which has no value if not exchange it with a new currency or deposit in the banks. Demonetization for us means that Reserve bank of India has withdrawn the old Rs 500 and Rs 1000 notes as an official mode of payment. This was a necessary step to be taken from a long time and Prime Minister Mr. Narendra Modi did it on 8<sup>th</sup> November 2016. It was because of two things: black money and fake currency. So to tackle black economy in the economy, to lower the cash circulation in the country which is directly related to corruption, to eliminate fake currency from the economy this major step of demonetization was long overdue. In this paper, an attempt has been made to identify the pros and cons associated with India's demonetization and examine the impact of it in various sectors in the economy.*

**Keywords:** *Demonetization, common man, cashless transaction, transparency, Maoist organization etc.*

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## Meaning of Demonetization:

On 8 November 2016, the Government of India announced the demonetization of all ₹ 500 and ₹ 1000 banknotes of the Mahatma Gandhi Series. It also announced the issuance of new ₹ 500 and ₹ 2000 banknotes in exchange for the demonetized banknotes. The government claimed that the action would curtail the shadow economy and reduce the use of illicit and counterfeit cash to fund illegal activity and terrorism. The announcement of demonetization was followed by prolonged cash shortages in the weeks that followed, which created significant disruption throughout the economy. People seeking to exchange their banknotes had to stand in lengthy queues, and several deaths were linked to the rush to exchange cash.

According to a 2018 report from the Reserve Bank of India, approximately 99.3% of the demonetized banknotes, or ₹ 15.30 lakh crore (15.3 trillion) of the ₹ 15.41 lakh crore that had been demonetized, were deposited with the banking system. The banknotes that were not deposited were only worth ₹ 10,720 crore (107.2 billion), leading analysts to state that the effort had failed to remove black

money from the economy. The BSE SENSEX and NIFTY 50 stock indices fell over 6 percent on the day after the announcement. The move reduced the country's industrial production and its GDP growth rate.

### **Objective of the study**

- To make aware the people about demonetization
- To draw attention about the merits and demerits of demonetization
- To know the impact of demonetization on the common man

**Review of the Literature:** Demonetization and its impact, by Dr Kavita Rao, Suranjali Tandan, etc., NIPFP, New Delhi.

### **DEMONETIZATION: THE NEED OF THE HOUR**

This move was long overdue. The growth of the cash economy in comparison to the gross domestic product (GDP) was less than 10% until 2001 which is now 12% of GDP approximately. The cash to GDP ratio must go down but it has risen. This has also been facilitated by growth in high denomination currency (as high as 87%).

This has led to distortions in the economy, especially in real estate, gold prices, usurious lending to small and micro businesses. This is also a partly a failure of the banking system.

The fast cash economy has moved into the Indian economy has moved deep into the Indian economy. Studies show 50 percent of Indian economy is in cash. Cash economy does not mean it is illicit economy, it's unorganized economy. Ninety percent of employment is attributed to economy driven largely by cash. This has resulted in huge cash hoardings, transactions between real estates.

So, it has distorted the economy in the last 10-20 years, because of what is called the wealth effect. The high rise of the stock market also contributed to all this. This situation had to be handled. Only a strong prime minister could have taken this decision.

### **5 TOP MOST PROBLEMS FACED TO LOCAL CITIZENS ON DEMONETIZATION OF 500 AND 1000 NOTES:**

PM Narendra Modi's decision of demonetizing 500 and 1000 notes leads to major problems to the local citizens of the country in every state. Reassuring of accepting notes at an emergency situation wasn't pleasing enough nor was the real truth. Day and night long queues never became short and hardships to local citizens only kept growing.

#### **1. Leave work, Stand in Ques.**

People have to leave work and stand in queues for banking transaction, for exchanging only 4000 rupees at once. Due to immediate decision of Prime Minister the people with salary in

hand face a major problem. They have money in hand but still they are poor, this is the current situation of the country.

### **2.No money for wedding**

We were happy yesterday, today wedding turned into a major tension. No money to pay for the hall booking, tents and any other due payments left. What we do? Standing in lines does not solve their problem in any case.

### **3.Currency is a major issue than health**

People are frustrated as they face major issues in paying hospital bills. Even after the rule of medical sector accepting the 500 and 1000 notes, this is not being the real scenario. They already have members of house to go to hospital, where do they get more member to stand in the long queues. Both priorities health and money at stake.

### **4.Petrol price rise becomes secondary issue, currency becomes primary**

Now I have money, but they do not fill my vehicles with petrol 500 and 1000 notes not being accepted at petrol pumps since the announcement of demonetization of notes, import & export, travel and tourism business goes flat. Travelling from one place to another with money and the very next moment you are all poor. The situation of every traveler that night (8<sup>th</sup> November, 2016).

### **5. ATM's couldn't serve people anymore**

ATM's had long queues even when they weren't working. The one day close of ATM was the only reason behind it. Disappointment happened when they got to know that the ATM couldn't give them the new 2000 rupee note because of its size. Neither the bank account help them nor the cash in hand.

## **COMMON PROBLEMS FACED DURING THE DEMONETISATION**

The main problem was arising during the demonetization is the replacement or exchange of the currency from the banks while on very short notice or sudden implementation of the stoppage of 500 and 1000 rupees currency. The bigger currency holder would try to hack the bank to immediate exchange of their currency which in turn creates a huge shortage of money in banks also. Due to security reasons heavy currency loading in ATMs were also reduced. These all created a chaos in the crowd and led to un-satisfaction on this significant step of the government.

## **PROBLEMS FACED BY GENERAL PEOPLE DURING DEMONETIZATION**

When liquidity shortage strikes, it is consumption that is going to be adversely affected first which led to several others affecting the daily life of the people. And as expected, the poorest people and the economically weaker sections of the society yet again emerged as the main sufferers. It took at least 6 to 9 months to replace and re-print 15 lakh crore rupees worth of currency notes.

Among india's middle class, Modi's "surgical strike on black money" still appears to be popular. **It's the old "vegan fallacy"- if something tastes terrible, it must be good for you.** Enough Indians are suffering that they believe it must be in a greater cause.

Some of the problems demonetization created for the commonman are:

- The worst hit are those who are not on plastic money and have to take care of urgent medical expenditure.
- Traders, taxi operators and the tourism sector have been hit hard. Horticulturists from Himachal were suffering as their produce was not been sold in fruit and vegetables markets.
- The people having marriages in their families have been allowed cash withdrawal of Rs. 2.5 lakh. Even for that amount a lot of riders have been added. Many are not getting 2.5 lakhs due to shortage of currency.
- Pensioners went through a harrowing time and long ques had taken many lives already. Even the senior citizens whose pension is directly linked to bank accounts are facing hassels.
- Private hospitals and chemists were not accepting old notes nor extending credit. The Rs.4000 limit that has been imposed on withdrawals from banks meant it is a hand-to-mouth existence for many who are already in trouble.
- Manual laborers and daily wage workers are unemployed as their employer lacks money to pay them in cash(online is not sufficient).
- Near panic in local markets. Number of transactions dropped.
- The people in rural areas and the farmers are also facing a great deal of hardships. Many of them did not have bank accounts or own a debit/credit card. The concept of internet banking was far removed for them. These people may be induced to rise in revolt. Already a case of looting a fair price shop by the public in Madhya Pradesh had been reported.
- Deep Deflation. The amount of money in circulation dropped dramatically while supply of goods remained stable. Hence the prices of the goods dropped. Gold prices, stock prices, commodity prices dropped.
- The public was inconvenienced because they did not had the cash to buy their daily supplies.
- Foreign tourists who had withdrawn money after landing in India were among the worst hit. Instead of enjoying the sights and sounds of the India, they were scampering around in an alien land, trying to secure the legal tender money. Incredible India indeed. The negative feedback to the tourist industry tampered its reputation.
- With less potential buyers in the market and fewer people having white money, the demand for the land went down and drove down its price. (as people get black money in the future, they will be afraid of holding onto cash and would want to convert that right away into other assets, such as land and gold. This is increased demand for land holding, as a form of store of value, might drive property prices higher in the future.)

- The trader class, is affected given that most wholesale shopkeepers choose to keep liquid cash to buy material everyday. Very few of them deposit money in a bank. Many of them have incurred losses because of the liquidity drying up in the market.
- More than a quarter of a billion people in India do not have access to the formal banking sector, which means that a cashless society would be truly perilous.
- Cores of working hours gone waste. Everything was in a frozen mode.

## **7 Reasons Why Demonetization Is A Masterstroke By Modi**

I emphatically welcome the government's decision to demonetize ₹500 and ₹1000 currency notes in circulation in the economy as bold and revolutionary, and one that will have tectonic impact on the ubiquitous parallel economy in the country. The move will significantly strengthen the government's systematic efforts (including special investigation team on black money, amending DTAA with Mauritius and Cyprus, amending the Benami Transactions Act, and the more recent Income Declaration Scheme) over the last two years to curb black money in the economy.

In a single master stroke, the government has attempted to tackle all three malaises plaguing the economy- a parallel economy, counterfeit currency and terror financing.

With the latest move, it is reasonably clear that the economy stands to benefit on several fronts:

### **1. Boost deposit base and savings**

Global agencies have pegged the size of the parallel economy in India at close to 23% as of 2007. Basis this, we estimate unaccounted cash in the economy to the tune of ₹4500 billion, of which a certain significant proportion will make its way to the banks, thus boosting deposit base as well as financial savings:

- The banks' deposit base is expected to receive a fillip of 0.5-1.4% of GDP.
- In turn, financing savings can be expected to rise by close to this proportion due to switch from savings from unproductive physical assets to financial assets.

### **2. Improve monetary transmission and reduce lending rates**

- A rise in deposit base will allow banks to lower the blended cost of funds as higher CASA (current accounts, savings accounts) deposits help to replace the high cost of borrowing and lower overall cost of funds. We expect banks to reduce deposit rates by ~125 bps over the next six months.

- The new regime of MCLR (Marginal Cost of Funds based Lending Rate )will immediately take into account the lower cost and will thereby lead to a decline in lending rates, which will boost economic activity in the medium term.

### **3. Create room for further monetary accommodation**

- With improved monetary transmission, economic efficiency and structural moderation in currency in circulation, there is likely to be a greater room for the RBI to ease monetary policy rate further. I am hopeful that the RBI will ease by another 100 bps in 2017-18 to a repo rate of 4% by March 2018.
- The piecemeal liquidity support from OMO purchases will now to a larger extent be addressed by the structural change in currency demand

### **4. Ready, Steady, now Go: financial inclusion via Jan Dhan**

Over the last two years, while the number of Jan Dhan accounts has recorded a stellar growth, the share of these accounts in total deposit base of the banking system has remained under 1%. The demonetization drive of higher denominated notes should give a push to cash deposits in Jan Dhan accounts, of which close to 43% so far have remained dormant. In addition, the move will help to inculcate banking habits among the large *unbanked* population in the country.

### **5. Support government finances**

- With some part of unaccounted money making way into the formal channel, the government stands to benefit from higher income tax collections. This should help cushion the government's FY17 fiscal deficit target, especially post the shortfall in anticipated spectrum revenues.
- The latest move will move the economy from the unorganized to organized sector, dovetailing into the GST architecture that is expected to come on board next year. This is likely to enhance the government's ability to tax commercial transactions resulting in a structural improvement in tax to GDP ratio in the economy.

The Indian economy has been provided a new lease of life- a "reset" if you will- with huge positive implications for liquidity, inflation, fiscal and external deficit in the short term.

### **6. Positive impacts from a bond market perspective**

- Improvement in bank deposit base leads to higher SLR (statutory liquidity ratio) demand.

- On the supply side, with tax buoyancy seeing an improvement, supply of g-secs is likely to get more rationalized due to gradual reduction in fiscal deficit over time as the impact of FRBMA (Fiscal Responsibility and Budget Management Act) is underway.
- Anticipation of monetary easing to further support bonds.

## **7. Rise in GDP Growth Potential**

While there are short-term implications for growth in cash-intensive sectors such as real estate, construction, and discretionary household consumption in general, I believe that long-term benefits for GDP growth will outweigh the short term transitional impact. We are now surely heading towards a 9% GDP growth by FY2018-19.

In a single master stroke, the government has attempted to tackle all three malaises currently plaguing the economy- a parallel economy, counterfeit currency in circulation and terror financing.

### **MERITS OF DEMONETIZATION:**

The demonetization policy to a certain extent helped India to become corruption free. Those indulging in taking bribe will refrain from corrupt practices as it will be hard for them to keep their unaccounted cash. This move will stop the circulation of fake currency. Most of the fake currency put in the circulation is of the high value notes and the banning of 500&1000 notes will eliminate the circulation of fake currency.

This move has generated interest among those people who had opened Jan Dhan account under the Prime Minister's Jan Dhan Yojana. They can now deposit their cash under this scheme and this money can be used for the developmental activity of the country.

Demonetization reduced the impact of parallel economy. The term parallel economy refers to as "black money", illegal economy and illegal sector in the economy. India has lost hundreds and millions of dollars to black money over the last few decades. It was the fifth largest exporter of black money in the world. According to Global Financial Integrity most Indian black money holders refers to stash their cash in Swiss bank.

1. The biggest advantage of demonetization is that it helps the government to track people who are having large sums of unaccounted cash or cash on which no increase tax has been paid.
2. Another benefit is that due to people disclosing their income by depositing money in their accounts government gets a good amount of tax revenue which can be used by the government towards the betterment of the society by providing good infrastructure, hospitals, educational institutions, roads and many facilities for poor and needy sections of the society.

3. Since black money is used for illegal activities such as terrorism funding, gambling, money laundering and also inflating the price of major assets classes like real estate, gold and due to demonetization all such activities will get reduced for some time.
4. Individuals who are sitting on a pile of cash usually do not deposit the amount in the bank or invest them anywhere as they would be required to show income or submit PAN for any valid financial transactions.
5. Fake currency circulation will come to a halt in a single shot Corrupt officers, money launderers are under threat as Income tax department is taking all the measures to track such people.
6. Most of the businessmen who have been hiding some income are ready to pay advance tax as current year's income. Tax payers who have been hiding some income can come forward to declare income and pay tax on the same.
7. Due to low funds in banks, financial institutions are not able to cut down the money lending rates. As huge amount being deposited in banks will cut down money lending rates in banks and other financial institutions. It is expected that banks will cut down their interest.
8. Lower Property Prices(Back to circle rate). Many people are saying from a long time that Real Estate industry is built over black money. Circulation of black money in this section is really very huge. As per report Demonetization will make the black money a waste in this section too and also it ends black transaction. Properties almost everywhere are back at circle rate of that area.

The demonetization bring towards A Cashless Economy. While it is practically impossible to have a cashless economy 100%, the proportion of hard cash in the economy has decreased significantly and our economy has become more digitalized. This will result in greater transparency.

#### **DISADVANTAGES OF DEMONETIZATION:**

The biggest disadvantage of demonetization is that once people in the country gets to know about it than initially for few days there is chaos and frenzy among public as everybody wants to get to rid of demonetized notes which in turn sometimes can lead to law and order problems and chaotic situations especially in banks and ATMs which are the only medium to change the old currency units to new currency units.

Another disadvantage is that destruction of old currency units and printing of new currency units involve costs which has to be borne by the government and if the costs are higher than benefits then there is no use of demonetization.



### **Demonetization effect-long term**

1. This move leads to digitalization of payment process as people will be deprived of using hard cash.
2. People will move for card based transactions as this will enable the government to track their transactions
3. Indian economy is cash based economy as 80% of Indians use cash for their day to day transactions
4. All the transactions will be routed through banks that will force the non- banking Indians to return to banking fold.
5. This will radically change the way of transactions happening in India in future, might be India will become as cashless country within the shortest period of time.
6. The corruption will be eliminated among the common people and money-hoarders will be forced to change their behavior on handling money related aspects. The analysis of the above said issues shows that, though the demonetization move is good, it has not been implemented in a proper manner .What else the Government has to do to mitigate these effects.

### **What the government still needs to work on?**

The introduction of 2000 currency note has been controversial in consideration of government's efforts to suppress black money by eliminating bigger denomination currency, what might be the strategy? It still seems to be a missing part in a puzzle. The present demonetization process has laid trap for smaller rats; it has potential to break all illegal transactions in real estate, gold, and a few other sectors where circulation of unaccounted money has reached saturation point. However the dinosaurs are safeguarding their money overseas; recovering it should be the primary focus of the government.

### **Conclusion:**

Economists are busy in listing out many more merits and demerit of this policy. The government is saying that there are only advantages of demonetization policy and this will be seen in the long term. Former Prime Minister Manmohan Singh who is a noted economist, former RBI governor and former Finance Minister of the country, dubs the demonetization move as an 'organized loot and legalized plunder'.However, if we compare the merits verses demerits, it will be safe to conclude that the former outweighs the latter.Even though there is suffering and agony among the masses right at the moment but the forecast is that its benefits will be seen in the long run.The government is taking all the necessary steps and actions to

meet the currency demand and soon the trial and tribulations of the people will be over with the smooth flow of the new currency.

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