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## DEMONETISATION: BOON OR CURSE

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### Introduction

The Indian Govt. gave an unexpected shock to its citizens on 8<sup>th</sup> Nov, 2016 by nullifying high value currency. The three big surprises of 2016 viz., Brexit 2016, Donald Trump Win and the India's Demonetization created an uncertainty in the Indian economy<sup>1</sup>. The Annual Report of Reserve Bank of India (RBI) 2015- 16 revealed that total bank notes circulated in India were valued at Rs. 16.42 trillion of which nearly 86% were of Rs. 500 and Rs. 1000 denomination<sup>2</sup>. The Demonetisation of such high value notes grinded the Indian economy to a virtual halt.

The informal sector which provides nearly 80% of total Indian employment is cash centric. The sector consists of 21000 unorganized markets, 38.3 million small and medium size enterprises. About 92% of the trade in Fast Moving Consumer Goods (FMCG) is taking place across petty shops (Kiranans) in India<sup>3</sup>. As the note ban move was sudden and unplanned, it caused considerable inconvenience to the daily wagers and working class. The earlier attempts to demonetize the notes in 1946 and 1978 did not affect the working class since less than 5% of population had access to those high value notes<sup>4</sup>. The recent step to cash ban is a bold step and daring to implement because outcome is uncertain.

Since independence, corruption, black economy and sponsored terrorist act were a major hurdle for India's economic growth. For instance, India stood 76<sup>th</sup> rank out of 168 nations in International Corruption Index 2015. Moreover, the Income Tax raid held between

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April 2014 and Nov 2016 unearthed nearly Rs. 31,277 crore black money and Rs. 2164 crore worth of undisclosed assets<sup>5</sup>. The RBI had detected nearly 6.5 lakh fake notes of higher value in circulation as per its Annual Report 2016<sup>6</sup>. From 2013, 205 out of 608<sup>7</sup> districts in India were badly affected by terrorism and such incidents are more frequent at present. This provoked the Indian Army to conduct surgical attacks on enemies. Fake Indian Currency Notes (FICN) Network is funding the terror networks in India. Because of this India lost nearly 707 lives and more than 3200 were injured so far. The recent bout of Demonetisation was a long pending affair as Rome was not built in a day. Finally the govt. announced the cash ban on Nov 8, 2016 anticipating the short term pain for long term gain to the society.

The job creation is always a challenge to the Govt. even before demonetization. The cash ban resulted in more job losses in various sectors of the economy. Nearly 2.5 lakh workers in leather industry and 15% to 20% of daily wagers in jewel sector became jobless<sup>8</sup>. Majority of ceramic tiles units were closed in Gujarat. In Surat, more than 20,000 workers in diamond sector lost their job. The Demonetisation results in reverse migration of work force thereby crores of people lost their earnings<sup>9</sup>. According to Sitaram Yecherury, CPI, since 8<sup>th</sup> No 2016, four lakh jobs were vanished and more than 31.9 million textile workers have not been getting wages. All India Manufacturers Association (AIMA) projected a drop in employment of 60% and loss in revenue of 55% to its member units during post demonetization. Indian infrastructure sector saw a cut of 35% in its employment mainly due to cash crunch<sup>10</sup>.

The Budget 2017-18 created a positive impact on Indian job market. According to Rituparna Chakraborty, Teamlease, budget directly suggests employment for youth in tourism, footwear, leather, textile and manufacturing industries. Relaxation of tax on corporate from 30% to 25% will increase the employment by 5 to 10%. As investment focus on infrastructure, it also going to boost employment in the sector. The digital payments also encourage job creation in cyber security and allied sector.

As per the World Bank Report, Capital formation in India has downward trend since 2011. In addition, Demonetisation has created an uncertainty in the flow of investments. New investments fell by 50% in post demonetization. The investment proposals which were 227 prior to cash ban declined to 177 till 31<sup>st</sup> December 2016. The value of investment proposals

were dropped from Rs. 81.8 thousand crore to Rs. 43.7 thousand crore during the period. The Private Final Consumption Expenditure (PFCE) reduced from 7.5% in 2015-16 to 5.5% in 2016-17<sup>11</sup>.

But the Govt.'s commitment to macroeconomic stability like lowering inflation, reduced bank rate and bank deposit rate, the sharp reduction in current account deficit became strong fundamentals for India to attract more investments. The Govt. of West Bengal received investment proposals worth Rs. 2.35 lakh crore on January 2017<sup>12</sup>. The union budget 2017-18 also paved way for a healthy investment atmosphere in Indian economy.

The contraction in cash supply slowdown the GDP. The Govt. Of India also lowered its GDP estimate from 7.6% to 7.1% for 2016-17<sup>13</sup>. In addition, the International Monetary Fund (IMF) has also lowered its forecast for Indian GDP from 7.5% to 6.6% for the year 2016-17<sup>14</sup>. Dr. Montek Singh Ahluwalia, former Deputy Chairman, Planning Commission also projected India's GDP between 5% to 5.5% for the year 2016-17 mainly due to demonetization. But Amercain Rating Agency 'Fitch' projected India's GDP at 6.9% from earlier 7.4% for the fiscal year 2017<sup>15</sup>. The Indian rating agencies ICRA and CARE also down grade the GDP to 6.8% in FY 17. According to Mahesh Vyas, CMIE, India's GDP growth will shift down to 6% per annum for next five years from 2017-18 because of demonetization<sup>16</sup>. But budget 2017-18 stated that Demonetisation will bring clear and bigger GDP because effect of cash ban is not expected to spill over to 2017-18. The GDP growth is projected between 6.75% to 7.5% for 2017-18. The capital expenditure is increased by almost 25% in budget. The fiscal deficit is 3.2% in 2017-18 and 3% in 2018-19. The Revenue deficit for 2017-18 is at 1.9%. The FOREX reserve is at \$361 billion in January 2017 which is enough to cover the next 12 months imports bill<sup>17</sup>.

## DEMONETISATION AND RUPEE

The demand and supply of currency will determine its value. Since demonetization, Rupee has depreciated by 1.69% from Rs. 66.63 to 67.75 on 15.12.16. Such declining trend will continue till currency circulation is fully restored. The currency circulation which was 11.8% on November 4, 2016 reduced to 6.5% on 20.01.2017. The US Fed Interest hike from 0.5% to 0.75% resulted in fund outflow i.e., nearly \$1.4 billion Foreign Investors Fund was pulled out of Indian Stock Market from November 7, 2016 to December 12, 2016. In addition,

FOREX reserve also dropped from \$367.04 billion to \$359.67 billion during the corresponding period<sup>18</sup>. The cash withdrawal limit was lifted for current accounts from February 1, 2017 onwards. The savings bank account holder's cash withdrawal limit likely to do away by February 2017 end. The end of such transitional pain will augment the money circulation in near future which has positive impact on Rupee. The Protectionism policy of Donald Trump, the US Fed Interest policy change finally resulted in strengthening the value of USD. The RBI fixed the reference rate of Rs. at 68.2043 against USD on 27.01.2017<sup>19</sup>.

### DEMONETISATION AND REAL ESTATE

Indian real estate is cash intensive. In addition, the sector had been witnessing a slowdown for the past three years. Since demonetization, nearly 37% declined in property registration in Mumbai. The rate of home sales had fallen by 50% and price by 20%. Union budget 2017-18 has focused a good deal in real estate which is beneficial to home buyers, developers and investors. The proposed infrastructure status to affordable housing, including a pledge to build one crore rural homes in next two years become a boost to Indian reality. According to Sunil Rohokale, ASK Group, the infrastructure status to reality opens up a lot of avenues to raise capital domestically from Insurance companies and pension funds. 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. But pricing is a major problem to all stakeholders in the Industry.

In India, the average no of card transaction per inhabitant is mere 6.7 compared to UK (201.7). India is emerging as digital India. Now it is at the cusp of a massive digital revolution. The Govt. had assumed that a significant portion of illegal assets is stored in the form of high value currency. Till 30.12.2016, around Rs. 14.97 trillion banned notes were deposited into banks which equals to 96.5% of total banned notes. It means that only Rs. 54,000 crore notes failed to make it back. The 96.5% deposits include Rs. 80,000 crore of repayment of loans, Rs. 25000 crore deposited in dormant accounts, Rs. 16,000 crore deposited in co-operatives and Rs. 13,000 crore deposited in Regional Rural Banks. Besides, more than Rs. 2 lakh deposited in each account over 60 lakh bank accounts during the period<sup>20</sup>. As identifying black money in the mess takes time, the goal post of cash ban was

shifted towards digital economy. Generally, the cash drive economy ultimately resulted in mounting of black money. The digitalization makes services faster, formal and accountable. The mobile wallet transaction per day rose 12 times in post demonitisation. As average value of transactions had fallen from Rs. 750 to Rs. 500, people started to use digital way even for petty expenses. “PayTM” showed three fold rise and “Oxygen” by 160% rise during the post shock therapy. The rural masses have started embracing digital payments through mobile wallets. Specific tax incentives and prizes offered for digital mode of payments to motivate people to follow digital way.

Actually the surgical strike on black money shook the investors’ confidence. The BSE SENSEX experienced a bit lower of 6% on the very next day of cash ban. As Warren Buffet rightly said, ‘be fearful when others are greedy’, the volatility in the stock markets caused uncertainty in nothing but buying opportunities. BSE SENSEX climbed the best weekly gain in 8 months of 0.63% on 27.01.2017. The Nifty also gained 0.45% during that weekend<sup>21</sup>. According to Porinju veliyath, Equity Intelligence India, Demonetisation drive brought a long term positive impact on Indian formal sector. To compete with informal sector, the formal sector has to mobilize huge investments from the stock market. The Union Budget 2017-18 is continued with tax exemption for long term capital gain from shares, which raised BSE SENSEX by 485.68 points and Nifty by 155.1 points on the day of budget itself<sup>22</sup>.

**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

Table 1.1 exhibits the simple moving average prices of BSE SENSEX before and post Demonetisation drive. The BSE SENSEX 30 shares' average prices of 50 days, 150 days and 200 days from the market price on 27.01.2017 taken for the study. It shows that the prices of Asian paints, Axis bank, Bharti Airtel, Dr. Reddy lab, Hindustan Unilever, Infosys, Lupin Ltd., M&M, Sun Pharma, TCS, Wipro declined marginally during the study period.

According to CMIE, the total transaction cost of Demonetisation including the GDP losses around Rs. 4.3 trillion<sup>23</sup>. But eradication of corruption, black money and terrorism is far most important. In 2012, the Central Board of Direct Taxes (CBDT) opined that Demonetisation may not be a solution to solve black economy. It is so because the black assets are largely held in the form of benami properties, bullion in and out of India.

During the cash ban, the tax authorities have conducted 556 surveys, 253 searches and 289 seizures. They seized Rs. 112.29 crore new high denomination currencies and Rs. 18 lakh fake new currencies. Over 75% funds officially recorded as received by Indian political parties between 2004 and 2014 were from unknown sources. Such donations lead to formations of Industrial lobby in our parliament. The unexpected large scale land purchase outside future smart cities in advance of November 8, 2016 may be attributed to the role of industrial lobby<sup>24</sup>. It is learnt that 58% of GDP is under the control of 1% population which is against the philosophy of prevention of concentration of economic power in few hands. It is aptly mentioned that nearly 4 tons of gold were purchased by the economic offenders in 48 hrs after the announcement of note ban of Nov 8, 2016. The Govt. has to act in time to implement Benami Transaction Act, Real Estate (Regulation and Development) Act, Bank

Reforms, Restructuring Informal Sector and speed of ongoing digital payments besides ensure cyber security.

The Govt. has to ensure both formal and informal sector should co-exist in country like India where inequality remains high. The 29 state owned banks wrote off Rs. 1.14 lakh crores of bad debts between 2013 and 2015 in which farmers were expected to get the benefits<sup>25</sup>. Recently the number of farmers' suicide shows an increasing trend. So transparency and accountability must be strongly imposed in all sectors of the economy. The RBI's Corporate Governance Reforms 2015 in Indian public sector banks has to be implemented properly on a continuous basis with needed changes.

## CONCLUSION

The success of Demonetisation depends on the way in which it is being executed. In 1991, Union of Soviet Socialist Republic (USSR) introduced Demonetisation which led to creation of Commonwealth of Independent States (CIS). Such move in North Korea made people homeless while cash ban in Nigeria in 1984 resulted in complete collapse of their economy. It is known that the Govt. machinery was unprepared to meet the challenges of cash crunch when it is implemented. There were nearly 62 amendments and notification during the first 3 weeks of its announcement. Consumer's confidence was fully shaken psychologically which require a comprehensive strategy to boost domestic consumption by improving purchasing power of working class. India is rich but Indians are poor. So a steady but low rate of inflation is always vital to protect the poor Indians who are daily wagers.

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