

“DEMONETIZATION: AN INDIAN PERSPECTIVE”

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Abstract

Demonetization is the act of withdrawing a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency .the government then retires the old unit of currency and replaces a new currency, along with the above said step. A recent example of demonetization occurred when the nations of the European Monetary Union adopted the euro. In order to switch to the euro, authorities first fixed exchange rates for the varied national currencies into euros. When the euro was introduced, the old national currencies were demonetized. However, the old currencies remained convertible into euro for a while so that a smooth transition through demonetization would be assured. The study explicates the monetization practice on the globe, taking Indian practice under the main coverage. The topic is very current and most dominants in the present scenario. The economical and social and behavioural aspects shall throw the light on the direction of this very step taken by the government.

Key words: demonetization, Indian economy, deregulation of currency.

INTRODUCTION

Demonetization is the act of withdrawing a currency unit of its status as legal tender. **Demonetization** is necessary whenever there is a change of national currency. Demonetisation is an economic term which is used to mean the 'scrapping' of old currency notes and stripping them off their status of legal tender, usually when a new currency note or currency is being introduced in the economy of the country.

OBJECTIVES OF STUDY

- 1) To conceptually framework the demonetization.
- 2) To explore the impact of demonetization.
- 3) To study and analyse the wholesale price index and fuel and power index.
- 4) To study the attitude of lower section of income group.

ANALYSIS AND INTERPRETATION

Objective 1

Research methodology: quotations from the experts are a good method to gather the clear and exact definition of demonetization. Specialized and trusted sites are explored to trace out the history of demonetization in India. The research aims at the difference between demonetization and that of barter system. The judgemental technique is used after reviewing the literature and knowing the implications of demonetization in the economy. the finding of the study are following;

This is a standard practice followed by all major economies of the world for different reasons. For instance, when the 'Euro' was introduced as the common currency of the European Union, the participating countries had effectively followed a 'demonetization' drive of their respective currencies by fixing exchange rates for the old currency to the newly introduced Euro. Indian Rupee has been demonetized various times as well. The highest denomination note ever printed by the Reserve Bank of India was the Rs 10,000 note in 1938 and again in 1954. But these notes were demonetized in January 1946 and again in January 1978, according to RBI data. Rs 1,000 and Rs 10,000 bank notes were in circulation prior to January 1946. Higher denomination banknotes of Rs 1,000, Rs 5,000 and Rs 10,000 were reintroduced in 1954 and all of them were demonetized in January 1978. The Rs 1,000 note made a comeback in November 2000. Rs 500 note came into circulation in October 1987. The move was then justified as attempt to contain the volume of banknotes in circulation due to inflation. However, this is the first time that Rs 2,000 currency note is being introduced. While announcing currently circulated Rs 500 and Rs 1,000 notes as invalid from midnight 8 Nov, Prime Minister Narendra Modi said new Rs 500 note and a Rs. 2,000 denomination banknote will be introduced from November 10. Bank notes in Ashoka Pillar watermark series in Rs 10 denomination were issued between 1967 and 1992, Rs 20 in 1972 and 1975, Rs 50 in 1975 and 1981 and Rs 100 between 1967-1979. The banknotes issued during this period contained the symbols representing science and technology, progress and orientation to Indian art forms. In the year 1980, the legend Satyameva Jayate — 'truth alone shall prevail' — was incorporated under the national emblem for the first time. In October 1987, Rs 500 banknote was introduced with the portrait of Mahatma Gandhi and Ashoka Pillar watermark. Mahatma Gandhi (MG) series banknotes – 1996 were issued in the denominations of Rs 5, (introduced in November 2001), Rs 10 (June 1996), Rs 20 (August 2001), Rs 50 (March 1997), Rs 100 (June 1996), Rs 500 (October 1997) and Rs 1,000 (November 2000). The Mahatma Gandhi Series – 2005 bank notes were issued in the denomination of Rs 10, Rs 20, Rs 50, Rs 100, Rs 500 and Rs 1,000 and contained some additional/new security features as compared to the 1996 MG series. The Rs 50 and Rs 100 banknotes were issued in August 2005, followed by Rs 500 and Rs 1,000 denominations in October 2005 and Rs 10 and Rs 20 in April 2006 and August 2006, respectively. The Rs. 10,000 notes were demonetized once in January 1946 and then again in January 1978. Recently, the Rs. 500 and Rs. 1000 notes were demonetized in a surprise

move on November 8, 2016. The recent scrapping of Indian 500 and 1000 rupee currency notes has sent the entire country in a whirlpool of confusion. The country may be happy about the initiative or upset with the move, but the word 'demonetisation' has recently become the trend. We bring to you the basic understanding of what the word means, when and how the demonetization of Indian Currency was brought into effect and why it is good or bad.

In a surprise move, the Indian Prime Minister, Shri Narendra Modi in his address to the nation on November 8, 2016 declared the demonetization of the Indian Rs. 500 and Rs. 1000 currency notes with effect midnight of November 8. This move sent the entire nation in a dizzy. The Hon'ble Prime Minister stated the decision as a step to counter terrorism which was being funded by counterfeit money as well as a decisive strike against the black money being hoarded by the citizens of the country. The decision scrapped the legal tender status of the high value currency notes of INR 500 and 1000 with immediate effect and introduced new Rs. 500 and Rs. 2000 notes. After the address, the Economic Affairs Secretary, Mr. Shaktikanta Das further explained the method and means by which the old currency notes would be exchanged for new notes. It was further assessed that people should not worry about their money as demonetisation does not mean that their money has no value. All it means is that it must be exchanged for the new notes. As per the notification, barring some public utilities like petrol pumps, hospitals, railways and airports as well as cremation and burial grounds, the use of old 500 and 1000 rupee note was discontinued. All the banks were shut for one day to effectively carry out the exchange of old currency and the ATMs across the nation were closed for two days. The government also imposed a limit of withdrawals from ATMs to Rs. 2000 per card and from banks to Rs. 10,000 per account per day up to Rs. 20,000 withdrawals per week. The limits were later revised to Rs. 2500 ATM withdrawals per day and Rs. 24,000 bank withdrawals per account per week. The use of old currency notes were also extended for use at Delhi Metro recharge counters as well as payment of property taxes and electricity bills. The government intends to exchange the old currency notes by December 30, 2016. After the date, the exchange of the old currency notes would only be possible at designated counters of RBI after submitting a declaration form to the same effect. (Source)

Objective 2: Implications of Demonetization

Research methodology: review the available current and latest literature from the varied sectors like banking, other financial experts is used as it is necessary to seek the sector specific implication of the move of demonetization on the economy. The author also has collected information through the direct interview of the lower section of the income group viz, vegetable sellers in the vegetables market, domestic servants, soup vender(hawkers) ,the respondents are covering the area of sec 2,4 and 5(people coming from all around).

Findings; HDFC Bank Investment Advisory Group, in their article named "Demonetization and its impact" dated November 11, 2016.

The move of the Government received both praises and severe criticisms from every section of the society. The immediate effect of the announcement saw countrymen lining up at the ATMs to withdraw 100 rupee notes to tide over the impending cash crunch. As per figures provided by the RBI, the banned currency constituted 86 percent of the currency in circulation in the country at the time. The entire magnitude of replacing the money in itself is a mammoth task and the pinch was felt by everyone in the immediate aftermath. The banks and ATMs opened to long queues of citizens lined up to exchange, withdraw and deposit the old currency notes. Reports were received from various part of the country about chaos regarding decline in essential services. The government has released further measures and actions and continues to do so in order to make this as convenient to the common man as possible. The Income Tax Department and the Ministry of Finance has further clarified that since it had given fair chance to all to declare their income by September 30 under the voluntary disclosure schemes, no further concessions would be given to people depositing large amounts in their accounts and all such large transactions would attract Tax scrutiny and penalty as per the law. As the drive to exchange the old currency notes continue, measures are being put in place to make the transition as smooth as possible. However, it can be judged that the sheer quantum of the money that needs to be exchanged (given the population and the amount of notes already in circulation) makes this a logistical juggernaut and would continue to cause discomfort. The Government and RBI are constantly working towards making this as comfortable as possible. Some of the measures include increasing the limits of withdrawals and scrapping Toll on National Highways till November 18, midnight. The move by the government to demonetize Rs.500 and Rs.1000 notes by replacing them with new Rs.500 and Rs.2000 notes has taken the country with surprise. The move by the government is to tackle the menace of black money, corruption, terror funding and fake currency. From a market perspective, we think that this is a very welcome move by the government and which has taken the black money hoarders with surprise. The total value of old Rs.500 and Rs.1000 notes in the circulation is to the tune of Rs.14.2 trillion, which is about 85% of the total value of currency in circulation. This means that the total cash has to now pass through the formal banking channels to get legitimacy. The World Bank in July, 2010 estimated the size of the shadow economy (black market transactions and undeclared work) for India at 20.7% of the Gross Domestic Product (GDP) in 1999 and rising to 23.2% in 2007. Assuming that this figure has not risen since then (quite unlikely though) and that the cash component of the shadow economy is also proportional (it could be higher), the estimated unaccounted value of the currency could be to the tune of Rs.3.3 trillion. Now, post the announcement of demonetization by the government this money would have to either account for by paying the relevant tax and penalties or would get extinguished. There are higher chances of larger proportion of this unaccounted currency getting extinguished as the tax rate and subsequent legal issues could be prohibitively high for such money.

Dec 6th 2016: Daily News & Analysis (DNA) titled "82.5% of demonetized currency back in bank coffers"

The banks have received Rs 11.55 lakh crore as deposits of the demonetized high currency notes as of Tuesday; Deputy Governor R Gandhi told the media on Wednesday while answering a question. This is 82.5% of the Rs 14 lakh crore that was wiped out overnight when Prime Minister Narendra Modi announced that Rs 500 and Rs 1,000 bank notes would be de-legalized as of November 8 midnight.

The government was expecting that about Rs 3 lakh crore in bank notes may not come back, wiping out that much black money held in cash within the country. However, according to the central bank, so far Rs 11.55 lakh crore has come back as deposits, a number which is only expected to go higher by December 30. Old Rs 500 and Rs 1,000 notes can be deposited in banks till December 30.

The rising level of deposits has raised concerns that hoarders of illicit cash may have found a way to convert their black money into bank deposits. The Enforcement Directorate has opened inquiries in at least 50 bank branches to check money laundering and hawala transactions.

The RBI on Wednesday left the key rates unchanged at 6.25% going away from market expectations of a 25 - 50 bps. In the post-policy media interaction the central bank said that the demonetization move was well thought out and was not a decision made in haste.

Objective 3): To study and analyse the wholesale price index & fuel and power index.

Wholesale price index and fuel and power index, are far suitable indicators of the impact of demonetization over the layman.

Research methodology: the author has taken the data from the most reliable source i.e., RBI for satisfying the third objective of the study, suitable charts are used to show the impact and justify the research. These two indices are necessary for the laymen hence are taken as a base of the present study. tabular and graphical representations are used.

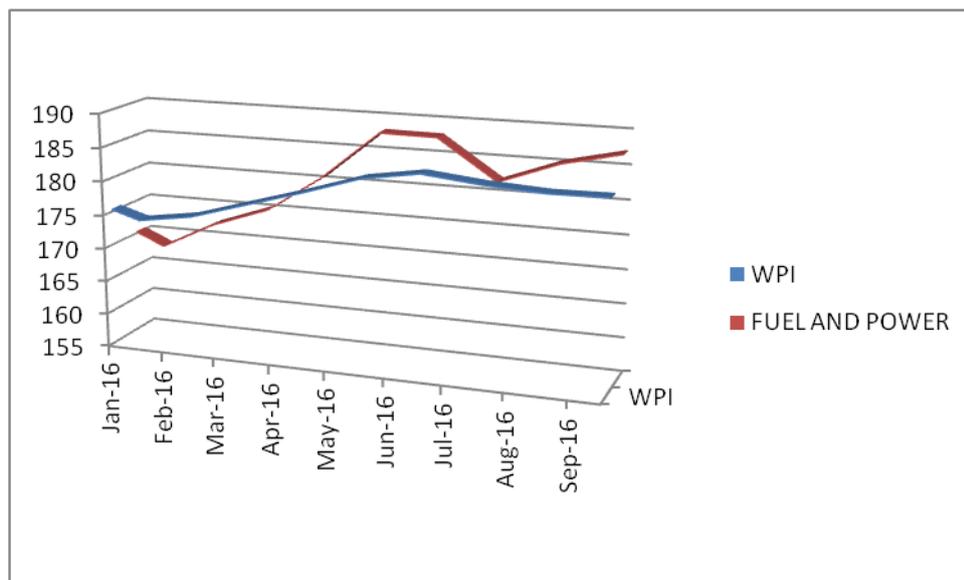
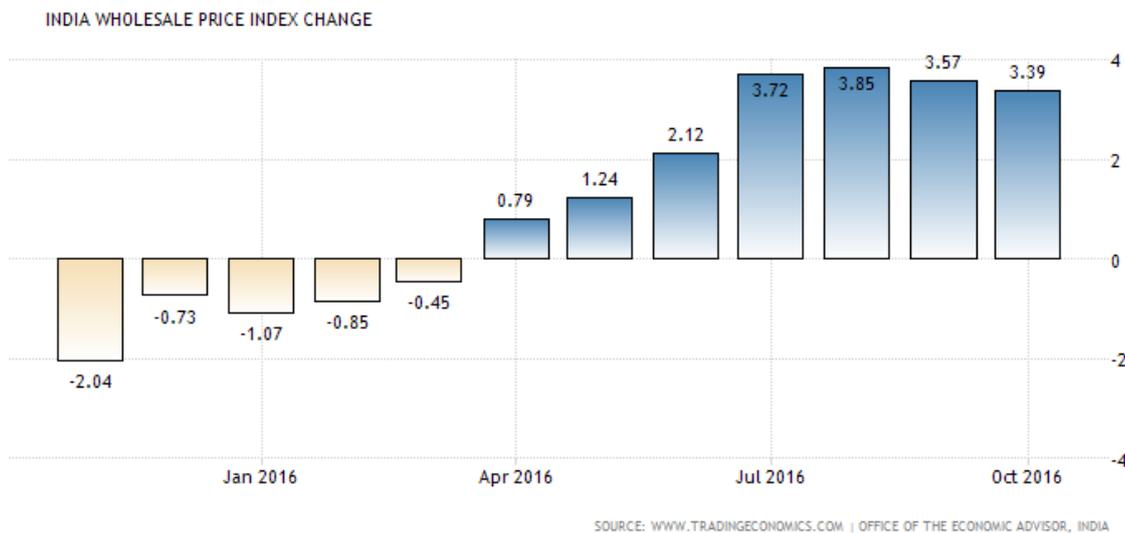


Chart showing graph of wholesale price index and fuel and power index over the study period of time.

Results and discussions: this is evident from the table and the graph that a noticeable rampant growth in price indices of fuel and power. FUEL & POWER (Weight 14.91%) The index for this major group rose by 1.0 percent to 187.3 (provisional) from 185.4 (provisional) for the previous month due to higher price of aviation turbine fuel (4%), petrol, furnace oil and high speed diesel (2% each) and kerosene and LPG (1% each). hence it may be stated that prima facie there is not a significant impact over the WPI in terms of adverse impact of demonetization but the official data for the month of November will be released on December 14, 2018.

In a signal that price pressures are on the rise, India's inflation based on the wholesale price index (WPI) came in at -1.99% in November, the highest level since January, compared with -3.81% in the preceding month, mainly on account of higher prices of pulses and onion. According to data released by the commerce ministry, food articles inflation quickened to 5.2% in November, from 2.44% in October. The fuel and power index came in at -11.09% from -16.32% the previous month. Manufactured products inflation was also up marginally at -1.42%, as against -1.67%. The government also revised the wholesale inflation data for September to -4.59% from -4.54% reported earlier. (Data released by commerce ministry).



Indian wholesale prices rose 3.39 percent year-on-year in October of 2016, following a 3.57 percent gain in September while markets expected a 3.75 percent rise. It was the seventh straight month of increase but the lowest figure since June, as a slowdown in prices of food offset a faster rise in cost of manufactured products and petrol. In October, food prices went up 4.34 percent from a year earlier, following a 5.75 percent rise in the preceding month. Among food prices, potatoes recorded the highest rise (+60.58 percent), followed by pulses (+21.80 percent), fruits (+6.45 percent), wheat (+6.30 percent); egg, meat & fish (6.20 percent), cereals (+6.13 percent), rice (+4.57 percent) and milk (+4.19 percent). In contrast, prices declined for: onion (-65.97 percent) and vegetables (-9.97 percent). Cost of manufactured products increased by 2.67 percent, compared to a 2.48 percent rise in the previous month. Petrol prices went up 3.57 percent year-on-year, following a 1.25 percent gain in September. Cost of diesel also increased by 19.32 percent, as compared to a 19.08 percent rise in a month earlier. (Trading economics)

Objective 4: Attitude of lower section of income group

Research methodology: this objective is achieved through direct interview with domestic servants, vegetables sellers, soup vendors and coconut water sellers. An interview is framed containing some questions, e.g. question 1) do you know about withdrawal of currency notes?

2) What are the problems you are facing due to the same move?

3) In nutshell what is your attitude towards the move?

CONCLUSION

The small vendors like soup vender, domestic servants and coconut water seller stated in favour of the move but the dealers in vegetable market find the move to be impacting a lot till date .here is one drawback in this

finding that the interview was taken after 10 days of the move but the views of the same people can be changed on the continuation of the problems arisen with the banks in terms of unavailability of cash.

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