

AN ANALYSIS OF IMPACT OF DEMONETISATION ON EMPLOYMENT, INVESTMENT, GDP, RUPEE, REAL ESTATE, DIGITALISATION AND STOCK MARKET.

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ABSTRACT

Demonetisation was effectively planned by the think-tank but suddenly declared in an unplanned way to catch black money in the Indian economy. The cash ban caused considerable damage to the wheels of the economy in the form of forced unemployment. The Indian informal sector, which provides 80% of total employment was much affected. The reverse migration of the workforce forced them to adapt to a meal per day. Nearly 2.6 lakh worker in leather industry, 20,000 workers in the diamond industry and 15% to 20% of daily wager in jewel sector have become jobless. The GDP estimate was reduced to 7.1% from 7.6% for the year 2016-17 by the government itself. The international monetary fund has also lowered the GDP forecast to 6.6% for 2016-17. New investment fell by nearly 45% to 50% in post cash ban. Rupee value also declines by 1.69% on 15.12.2016. The surgical strike on black money has derailed the investors' confidence in the stock market beginning. The cost of demonetization is estimated at Rs. 4.3 trillion including GDP losses. The government felt that the impact is transient, but the economist views it as firing cannonballs to kill mosquitoes. To conclude, Demonetisation is a long pending measures to curb black money. In addition, the government has to employ in time all other pertinent measures in an exigent mode to make the cash ban a grand success.

INTRODUCTION

The Indian government gave an unexpected shock to its citizens on 8th November 2016 by nullifying the high value of the currency. The three big surprises of 2016 viz., Brexit 2016, Donald Trump win and India's demonetization created uncertainty in the Indian economy. The annual report of reserve bank of India (RBI) 2015-16 revealed that total bank notes circulated in India were valued at 16.42 trillion of which nearly 86% were of Rs. 500 and Rs. 1000 denomination. The demonetization of such high value notes ground the Indian economy to a virtual halt.

CASH IS KING

The informal sector which provides nearly 80% to 85% 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 pretty shops in India. As the note ban move was sudden and unplanned, it caused considerable inconvenience to the daily wagger and working class. The earlier attempts to demonetize the notes in 1946 and 1978 didn't affect this working class since less than 5% of the population had access to those high value notes. The recent step to cash ban is a bold step and daring to implement because the outcome is uncertain.

STATEMENT OF PROBLEM

Since independence, corruption, black money and sponsored terrorist act was a major issue for India's economic growth. For instance, India stood 76th rank out of 168 nations in international corruption index 2015. Moreover, the income tax raid held between April 2014 and November 2016 unearthed nearly Rs. 31,277 crore of black money and Rs. 2164 crore worth of undisclosed assets. The RBI has detected nearly 6.5 lakh fake notes of higher value in circulation as per its annual report 2016. From 2013, 205 out of 608 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 network is funding the terror network in India. Because of this India lost nearly 700 lives and more than 3000 were injured badly so far. Finally, the government announced the cash ban on November 8, 2016, anticipating the short term pain for a long term gain to the society.

VOLATILE EFFECT OF DEMONETIZATION

Demonetisation has caused a sudden breakdown in Indian commercial ecosystem. Cash centric sector was virtually shut down. The rural population has become jobless. Poor and working class people have been disclosed and their livelihood was irreparably damaged. Farmers could not buy inputs, private hospitals refuse to treat patients who had only old notes. Some of the working class found difficulty in buying food and daily necessities. Wedding and other social events were disrupted the working class did not have access to structural set up to adapt to this shock doctrine economics.

DEMONETISATION AND EMPLOYMENT

The job creation is always a challenge to the government even before demonetization. The cash ban resulted in more job losses in various sector of the economy. Nearly 2.5 lakh worker in leather industry and 15% to 20% of daily wager in jewel sector become jobless. Majority of ceramic tiles units were closed in Gujarat. In Surat, more than 20,000 workers in the diamond sector loss their job. The demonetization results in reverse migration of the workforce thereby crores of people lost their earnings. According to Sitaram Yecherury, CPI, since 8th November 2016, 4 lakh jobs vanished and more than 31.9 million textile worker has not been getting wages. All India manufacturers association projected a drop in employment of 60% and loss in revenue of 55% to its members' units during post demonetization. Indian infrastructure sector saw a cut of 35% in its employment mainly due to cash crunch.

After that, the budget of 2017-18 put a positive impact on the Indian job market. According to Rituparna Chakraborty, Teamlease, budget directly suggests employment for youth in tourism, footwear, leather, textile and manufacturing industry. Relaxation of tax on corporate form 30% to 25% will increase employment by 5% to 10%. As investment focus on infrastructure, it also going to boost employment in the sector. The digital payment also encourages job creation in cybersecurity and allied sector.

INVESTMENT AND DEMONETISATION

As per the World Bank report, capital formation in India has a downward trend since 2011. In addition, demonetization has created uncertainty in the flow of investment. New investment fell by 50% in post demonetization. The investment proposals which were 227 prior to cash ban declined to 177 till 31st December 2016. The value of an investment proposal was dropped from Rs. 81.8 thousand crores during the period. The private final consumption expenditure reduced from 7.5% in 2015-16 to 5.5% in 2016-17. But the government's commitment to macroeconomic stability like lowering inflation, reduced bank rate, the sharp reduction in current account deficit became strong fundamentals for India to attract more investments. The government of West Bengal received investment proposals worth Rs. 2.35 lakh crore in January 2017. The union budget 2017-18 also paved the way for a healthy investment atmosphere in the Indian economy.

GDP AND DEMONETISATION

The contraction in the cash supply shutdown the GDP. The Govt. Of India also lowered its GDP from 7.6% to 7.1% for 2016-17. 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. Dr. Montek Singh Ahluwalia, former deputy chairman, the planning commission also projected India's GDP Between 5% to 5.5% for the year 2016-17 mainly due to demonetization. But the American rating agency 'Fitch' projected India's GDP at 6.9% from earlier 7.4% for the fiscal year 2017. The Indian rating agencies ICRA and CARE also downgrade the GDP to 6.8% in FY 17.

RUPEE AND DEMONETISATION

The demand and supply of currency will determine its value. Since demonetization, the rupee has reduced by 1.69% from 66.63 to 67.75 on 15-12-2016. Such a reducing trend continued till currency circulation was fully restored. The currency circulation which was 11.8% on November 4, 2016, reduced to 6.5% on 20-01-2017. The U.S fed interest hike from 0.5% to 0.75% in fund outflow. The cash withdrawal limit was lifted for current accounts from February 1, 2017 onwards. The saving 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 the near future which have a positive impact on the 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.

DEMONETISATION AND REAL ESTATE

Indian real estate is cash intensive. In addition, the sector had been witnessing a slow down for the past three years. Since demonetization, nearly 37% decline 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 in real estate which is beneficial to home buyers, developers and investors. The proposed infrastructure status to affordable housing, including a pledged to build 1 crore rural homes in the 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 fund. The policies like smart cities,

housing for all by 2011, AMRUT, real estate act, Benami transaction act including GST act will bring more transparency in this particular sector.

DIGITALIZATION AND DEMONETISATION

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 included Rs. 80,000 crore repayment of loans, Rs. 25,000 crore deposited in dormant accounts, Rs. 16,000 crore deposited in co-operative and Rs.13,000 crores deposited in regional rural banks. Besides, more than Rs. 2 lakh deposited in each account over 60 lakh bank accounts during the period. As identifying black money in the mess takes times, the goal post of cash ban was shifted towards the digital economy. Generally, the cash drive economy ultimately resulted in mounting black money. The digitalization makes service faster, formal and accountable. The mobile wallet transaction per day rose 12 times in post demonetization. As the average value of transactions had fallen from Rs. 750 to Rs. 500, people started to use digital way even for petty expenses. "PayTM" showed the three-fold rise and "Oxygen" by 160% rise during the post-shock therapy. The rural masses have started embracing digital payment through mobile wallets. Specific tax incentives and prizes offered for a digital mode of payment to motivate to follow digital way.

INDIAN STOCK MARKET- DEMONETISATION

Actually, the surgical strike on black money trembled the investors' confidence. The BSE SENSEX experienced a bit lower of 6% on the way next day of cash ban. As Warren Buffet rightly said, "be fearful when others are greedy", the volatility in the stock market 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. According to Porinju Veliyath, Equity intelligence India, Demonetisation drive brought a long term positive impact on Indian formal sector. To compete with the informal sector, the formal sector has to mobilize huge investment from the stock market. The Union Budget

2017-18 is continued with a 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 budget itself.

Table 1.1: SIMPLE STIRRING AVERAGE PRICE OF BSE SENSEX BEFORE AND AFTER DEMONETISATION

NAME OF 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 India 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	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 Ltd	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	48.42	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 Cor. of India	171	179	108.94	188	119.88	205	104.68
Reliance Industries Ltd	1021	1033	101.67	1038	100.39	1025	101.18
SBI	234	248	108.97	255	113.68	266	105.98
Sun Pharma Ltd.	745	730	88.46	659	86.04	641	97.99
TCS Ltd.	2433	2399	93.22	2268	96.92	2358	98.60
Tata Motors	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.BSE30Sensex.com

Table 1.1 exhibits the simple moving average prices of BSE SENSEX before and post demonetization drive. The BSE SENSEX 30 Shares' average price 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, and Wipro declined marginally during the study period.

CONCLUSION

The success of Demonetisation depends on the way in which it is being executed. In 1991, the Union of Soviet Socialist Republic introduces demonetization which led to the creation of commonwealth of an independent state. Such a move in North Korea made people homeless while cash ban in Nigeria in 1984 resulted in a complete collapse of their economy. It is known that the govt. machinery was unprepared to meet the challenges of a 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 the 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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