

Demonetisation in India: A View

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Abstract: *The ending of ₹500 and ₹1,000 notes has serious implication to the black money or counter feet in the country. It might take six months to one year to recover from this amazement and it's after effects. The sudden demonetisation has hit the business circles very bad, especially, the small and retail sector. The effects of this will be felt in the coming months. The Income Tax department of the country is also monitoring the entire operation with due care. For coming few years may be decision against black money, corruption and counter feet may go correct but for long run it is not fruitful as the system remains same. This article makes an attempt to have a glance on demonetisation which has been taken place in November 2016 in India.*

Keywords: *Demonetisation, Black Money, Corruption, Counter Feet.*

I. INTRODUCTION

In the Indian respect as per the P. Chidambaram demonetisation means from 8th November 2016 old notes of ₹500 and 1000 will not be the legal exchange. Demonetisation is an act of exchange of old notes with new one. Arun Jaitley has said that demonetisation is an act of government to make transactions towards cashless society.

RBI (Reserve Bank of India) former governor Raghuram Rajan has said that the central banks order withdrawing all currency notes printed before 2005 is not an attempt at demonetisation nor does it have anything to do with the forthcoming general elections.

Real estate business is logically the worst affected because by this act this business was progressing rapidly only against highest use of black money, and have amassed huge unaccounted funds in bag full's. There is a ray of hope that in a coming year this trade could revive at the fresh corrected market rates when registration deed as also property taxes are eliminated all together, with the introduction of bank transactions tax. This could also see the removal of even income, sales, vat, excise, road and most of the taxes, the ultimate aim which Modi government has embarked upon.

The digitalisation of money transactions is one of the strong steps in this direction. Huge unaccounted funds of 1,000 and 500 currency notes all around, having vanished and evaporated over night. Next possible step is to target properties purchased with high unaccounted funds as also benami properties, plots & business partnerships, shares, mutual funds, diamonds, gold, jewellery by bureaucrats, Real Estate dealers, Chartered Accountants, and large bribe flat babus and PWD, Excise, Income Tax, Vat Taxations, Municipal Committees, Customs, RTI etc.

This demonetisation is going to be wide scale discussion where most of the unaccounted funds players will feel the highest set back; many are going to get free fooding and lodging in Jails all over India.

Even as most leading brokerages view the government's decision to ban ₹ 500 and ₹ 1,000 notes as positive from a medium-term perspective, the short-term impact will be negative for most pockets in the economy. As a result, performance of India Inc as well as the economy is likely to be muted in the ongoing quarter, believe analysts. "In the short run, the move can be disruptive for growth (via negative wealth effect for those losing net worth and transactional inconvenience for consumers and producers). Cash heavy sectors are likely to be disrupted mainly," says Pranjul Bhandari, chief economist, India at HSBC, in a report.

There are many sectors having high proportion of cash transactions and these will be impacted even as receivables of companies in these segments will go up. Among these, real estate and sectors would be the worst-hit because these are the ideal investments of Indian consumers for their black money. Typically, the high cash component provided working capital for many builders and its absence could adversely affect their financials. Also, it could affect demand emanating from customers inclined towards paying cash, and consequently force builders to lower real estate prices going forward. "But, in the long run, due to affordable prices and low supply, this sector will experience positive demand scenario," says Vinay Khattar, head of research at Edelweiss Securities.

Upcoming ordering as well as ongoing activities in roads, water, railways and transmission and distribution sectors, too, will be impacted as payment to labour is usually made in cash. Low number of bank accounts in remote, small villages and supply-chain disruptions could affect demand for consumer staples for a brief while, believe analysts. The demand impact of large-ticket consumer durables items such as apparels, white goods, apparel and the likes could also head south. Likewise, purchase of fertilisers and agrochemicals are

usually done via cash, too, could come down. All metal companies will be negatively impacted as a large part of trading in steel and other metals is carried on a cash basis currently.

The short-term debt servicing capacity of small borrowers could be reduced, which may impact the asset quality as well as credit growth of microfinance companies such as Bharat Financial Inclusion, Ujjivan Financial Services, Equitas, among others, believe analysts. Housing finance companies, too, could witness pressure on their credit quality as well as growth, as fall in real estate prices would impact the loan against property (LAP) business.

E-commerce players are likely to feel the heat in the near- to medium-term. Cash on delivery forms anywhere between 70 and 90% of e-commerce players' revenues and, hence, can impact valuations of retail e-commerce players, estimate analysts at JM Financial. While bringing inflation under control, it will also give the Reserve Bank of India some more space for cutting rates. "The move can be marginally positive for fiscal as some scramble to deposit cash into banks by declaring as income and paying necessary taxes and external accounts by reducing the demand for cash intensive imports such as gold," says Pranjul Bhandari, chief economist - India at HSBC.

Despite having many positives such as rising tax to GDP, higher GDP growth, lower inflation, higher financial savings, this demonetisation move may not restrain the root cause of black money. "This initiative addresses the 'stock' of black money but not necessarily the flow/fresh creation of black money unless some mechanism is built to track the movement of the new high-value currency notes," says leading brokerage CLSA in a note to investors. However, such a sudden and drastic step by the government might discourage some if not all sections of the society from creating new black money reserves.

Most of India's business environment has been enormously stunned up by the recent demonetization of the higher currency notes by the Modi government. This is the third demonetization exercise undertaken by the Indian authorities, if we include the one done just before independence in 1946. It is still too early to accurately judge the depth of the shakeup this has caused, but its impact on the various sectors is immediately visible.

Objectives of the study

The main objective of the study is to inspect the effect of demonetisation in country.

The specific objectives of this study are:

- To examine the need of demonetisation.
- To determine Government plans before demonetisation
- To find out impact of demonetisation on country's economy.

Need for demonetisation

Firstly, increase in the circulation of notes by 40% from year 2011-2016 ₹500 notes to 76% and ₹1000 to 109% where, economy growth was only 30%.

Secondly, as per RBI report ₹16,415 billion was in circulation out of which 47.80% and 38.69% notes were ₹500 and ₹1000 respectively which were around 86% of the total value of the notes.

Financial Action Task Force (FATF) reveals that 500 and 1000 notes are used in criminal activity. For example a house is of ₹20, 00,000 lakh buyer pays 30% in cash and 70% through cheque 30% cash amount is in 500 and 1000 notes as it is easy to carry.

Another example is school fees which are paid in cash and has no full record which means there is unaccounted money on which tax is to be paid which is known as black money.

Bribe which are paid to clear the files in the government offices are black money.

Politicians who give money to voters to get vote are unaccounted money.

Black money is nothing but money or the amount on which tax is to be paid but it is not paid. It is also known as money which is not accounted by a government.

Government plans before demonetisation was:

- Prime Minister Jan Dhan Yojna i.e. to open zero balance account. This has entered in genis book of world record.
- IPS Income Disclosure Scheme.
- Demonetisation

Impact on Country's Economy

Demonetisation has killed the fake currency but still the system remains the same again fake currency will be printed. As per me solution to this problem should be if:

₹3 is the cost to print 500 notes than its face value will be .3 and to print 2000 notes cost incurred is 12. There is no need to print 2000 and 500 notes as an ideal amount for house hold expenses per day is ₹250. Therefore this amount notes can be printed so as to reduce the printing cost prices.

As per the National Investigation Agency around 400 crore fake currency was in the economy in year 2016. By printing new notes this to kill fake currency problem is not fully solved.

Demonetisation impact on corruption, again there will be new 500 and 2000 new notes. 2000 notes are more easy to carry as its value is high and take the place as other. To receive and pay bribe it will be easy.

India has lost around total of 213 billion US dollar from 1948 to 2008. Around 50% of India GDP is a black money. Out of this 50% black money, 72% is invested in abroad and remaining in India.

World Bank Report says that in year 2000 23.10% deposit was black money and in year 2007 20.70% deposit was black money. If black money is converted quickly in gold or real estate or deposited in foreign banks account this money can't be converted in white. And amount in foreign banks can't be returned back in India which was earned in India.

A report says that only 6% of unaccounted money is held in cash. Real estate's holding black money is funding political parties.

Who stays mostly affected?

- Home makers
- Daily wagers
- Aam adami

Old 500 and 1000 currency can't be exchanged and no new notes were in market. These people have to wait for their payments and purchases. People were losing right to livelihood. There was violation of fundamental rights through demonetisation.

What stays mostly unaffected?

The primary market or the market formed by projects undertaken by reputed and credible developers in the top 8 Indian cities - will remain more or less unaffected. This is because buyers into such projects take the home loans/finance route to buy their homes, and transactions are done through legal channels. Therefore, there will not be any major impact on sales in this segment. However, there might be an impact on quite a few projects in tier 2 or 3 cities where cash has played a role even in primary residential sales. However, the turmoil in this segment will settle down in a short period of time.

Cash less Economy

Talking about cash less economy there will be behavioural change in people of the country.

COUNTRY	ECONOMY (\$TRILLIONS)	% OF CASH
US	21	8.6
CHINA	14	12.7
JAPAN	4.50	11
INDIA	2.25	22

Sweden can be told as cash less economy, but still its cash % is 3.

II. CONCLUSION AND SUGGESTION

Most of India's business environment has been tremendously shaken up by the recent demonetization of the higher currency notes by the Modi government. This is the third demonetization exercise undertaken by the Indian authorities, if we include the one done just before independence in 1946. It is still too early to accurately gauge the depth of the shakeup this has caused, but its impact on the real estate sector is immediately visible.

Since Modi's surprise announcement, the ripples have been spreading through the already disturbed sector, which has been experiencing excruciatingly slow growth in recent times. Poor sales leading to almost flat prices, heavy liquidity challenges and high unsold inventory have all colluded to keep real estate sector away from fulfilling its potential and provide necessary residential stability to average citizens. Investors, who meant to close their deals with the cash component, would much rather wait now, given the uncertainty.

- Government can have used these old 500 and 1000 currency notes to invest in purchasing of necessity goods, by this resources used in printing these notes can be utilised.
- Government can abolish tax at every step as paying tax give birth to black money. If tax percentage is decreased people will redy to pay tax.
- Instead of paying tax amount high that money can be deposited in bank account which can be invested by the investors by taking loan from bank which will help in increasing the GDP of the country and various jobs will also be created.
- Mutual assistance between countries to bring black money back in country.
- Some amount of bribe can be given to recover black money in country.

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