

# Demonitization and its effect on life of common people in India

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## Abstract

**Objectives:** To understand the concept of Demonetization, Short term, Long term impact and future implementation strategy

**Methods/Statistical analysis:** This short communication is the outcome of observation of this author about the Demonetization in the Indian Economy with special emphasis with regards to its impact on the life of common people. The author referred articles and News Paper reports about demonetization, the opinion of eminent academicians in the field of economics and financial accounting and common people were also obtained to prepare this short communication.

### Findings:

- 1) The common people in the ground level are suffering and they like to digest this suffering with the hope that this drive would eliminate the corruption at all levels.
- 2) The issues of excessive money deposited in the Banks due to sucking of outlawed currency and the ways to use it effectively were deliberated in this short note.
- 3) It also identified that the cashless transactions would become as the norm of payments in future.
- 4) The demonetization would eradicate corruption in the longer run.

These findings are helpful for the stakeholders of Indian Monetary Policy makers and Government as it reflect the prevailing outcome of demonetization. The archives of various publication shows that the demonetization is the reason for undue hardship faced by the people and the same finding was observed in this analysis but this short note found that the people understood that their sufferings are temporary in nature and believe that their suffering would be over in the immediate future.

Since this is new to both the Government of India and its people, both are confused thus resulted slight unrest among them.

**Application/Improvements:**1) The outcome of this short note can be used by Gol, Reserve Bank of India for further refinement of demonetization.

**Keywords:** Demonetization, Corruption, Market Stabilization Scheme, Cash Reserve Ratio, Globalization.

## 1. Introduction

The Indian Economy is a \$2 trillion worth one and considered as a growth engine of Asia. It is one of the economies that grew more than 7% in recent years. The industry as well as the services sector has been growing in phenomenon way in recent years, especially in service sector India has achieved a rare destination of Global Software Exporter. Despite of these achievements, India has been marred by corruption, execution deficiencies, lack of efficiency leaders and inefficient political system. Due to these flaws, a group of Indians representing less than 2-3% of Indian population have amazed wealth through ill fare manner [1]. Certain statistics pointed out that the black money deposited by Indians in the offshore tax heavens exceeds \$1 trillion which is equivalent to 45% of GDP. The black money became as the election issue and during the election campaign Mr.Narendra Singh Modi of BJP, vowed not only to bring back black money stashed in offshore market but also to abolish forfeited currency [2].

## 2. Concept of demonetization

In order to fulfill the commitment, the Modi government has adopted the concept of Demonetization. One fine morning that is November 8, 2016, the Government has declared that the existing 500 and 1000 notes are invalid and void. The important aspect to be noted in this circumstances is, out of total money (Rs.18 lakhs crore ) circulated

in the market, nearly Rs.13-14 lakhs crores of money in the denomination of Rs.500 and Rs.1000. After this concept was implemented across the country, there was a chaos, confusion and anger among the people [3]. Indians are generally emotionless and reaction less people, thus leads them to accept this change without having any agitation or protest. During the initial period of demonetization, the government came with restriction on withdrawal and deposits as the withdrawal was limited to Rs.4000 for an individual and a maximum amount can be deposited to an account was limited to Rs.2, 50,000. This created the fear and anxiety among the people, as they thought that the government vehemently imposing restrictions on withdrawing their own money.

Nevertheless, the announcement of 50% tax for the people who deposit more than Rs.2, 50,000 in their account was the eye opener and installed the seriousness of the government on implementing demonetization move in the minds of the people. Of course, the demonetization resulted to mobilize about Rs.8-10 lakh crores of money and the bank now has excess liquidity in the system but after the days of implementation of demonetization, the government and the implementing authorities slightly felt that their aim of bringing back the black money has not been achieved because only 5% of black money is in the form of cash. The remaining was invested in the form of gold and other avenues by the so called niche Indians [4-5].

### 3. Micro and macro aspects of demonetization

Now, the ordinary people are struggling to cope up with the new environment, that the government replaced the existing Rs.500 and Rs.1000 notes with Rs.2000 notes. People got confused about the reason of introducing Rs 2000 notes as the usage of the currency is very limited because of lack of stabilization. In the macro aspect, it is evident that, the banks are struggling with excessive liquidity and have consulted with RBI about the way of disposing excess cash accumulated due to the demonetization in the system. Various options like Repo rate, CRR, SLR and Market Stabilization Scheme (MSS)(Business Line) have been explored to contain volatility in the cash moment [6]. The banks are suggesting that the RBI has to invoke MSS to shuck the excess money available in the system and here the problem is, if RBI implemented that it would be an additional burden for exchequer in addition with the cost involved on printing on notes. The another option available for the bank is that they can lend the money to the people at the lowest interest rate but if they did so, the inflation rate may sore up and perhaps will go beyond the stipulated limit of 4% to 5%[7]. So the banks are cautious on reducing the interest rates and the same was understood from the recent monetary policy announcement by the RBI on December 7, 2016 in which there is no change in the policy rate. So what the government has achieved because of the demonetization [8], [9].

### 4. Demonetization effect-short term

1. The move created confusion and chaos among the people.
2. Though it sucked excess money from the system, the GOI and RBI are now worrying about the method of using that money.
3. The businesses especially micro and small industries got affected by this move as it affected the cash flow.
4. The economist felt in pessimistic about the prospects of abolishing black money and forfeited currency.

### 5. Demonetization effect-long term

1. This move leads to digitalization of payment process as people will be deprived of using hard cash.
2. Indian economy is cash based economy as 80% of Indians use cash for their day to day transactions
3. People will move for card based transactions as this will enable the government to track their 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.

## 6. Implementation strategy

1. They have to print more money in the denomination of Rs.100 and Rs.500 notes upto Rs.7 lakh to Rs.10 lakh crore
2. Ensure the availability of notes for across the section of people by avoiding the hoarders to have control on the money.
3. The RBI has to observe the excess liquidity from the banking system and the same should be appropriately used for industrial development in future [1].
4. The RBI and bank should strike the balance on lending the money for consumption and business development in an appropriate way.
5. The government and RBI should crack the whip on black money holders who invested their money in gold, real estates and offshore heavens through appropriate legislations to bring back to the country.
6. The government of India has to take effect to reduce the corruption in all levels to mitigate the problem of black money as experts of money market and politics predicted that corruption is one of the main reasons for accumulation of black money.

## 7. Conclusion

The demonetization effect has deeper impact on the life of common people as they suffered a lot from this move. Moreover, the people who withstood this suffering are having expectation that this move should have to completely eradicate corruption and make their life as comfortable, for this the people silently accept this move, however if the implementation have not been done in proper manner and the desired objectives have not been achieved the ultimate sufferers are crores of common people. The government is also unlikely to restore normalcy in the areas of availability of enough cash in the hands of people within 50 days as committed and it would take minimum nine months to one year to get rid of this issue. In a Nutshell, this is good concept but implemented with flaws.

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