



DEMONETIZATION AND ITS IMPACT ON INDIAN CONSUMERS- IS IT A BONE OR BANE FOR THE ECONOMY?

T. Kadalarasane¹ & Tripura Sundari C. U.²

¹Faculty, Quantitative Finance Programme, Department of Statistics, Pondicherry University, India
E-mail: kadal009@gmail.com

²(Corresponding Author): E-mail: tsundari30@gmail.com

Received : 28 January 2021; Revised : 17 February 2021; Accepted : 19 February 2021; Published : 3 May 2021

Abstract: The Demonetization notification by the India Government on 8th November 2016 had serious impact on many sections of the population whose major source of the study examines, trade and livelihood dependent on cash. The middle and below poverty line people are the one who were affected by this action. To reduce corruption or black money this is not the only tool, the policies which Government suggests must be for the people's welfare and should not be a disaster. Hence the current paper attempts to reveal the impact of demonetization on consumer and producer who are the main players of the economy. The opinion of common people and bank employees are regarding demonetization is collected with the help of a questioner. Required data are sourced from RBI and Economic survey, for which percentage methods, data visualization technique, and qualitative analysis is used and the policy suggestions are drawn based on the findings.

Key words: Costumer protection, data visualization technique, Demonetization, Government policy, India, qualitative analysis.

INTRODUCTION

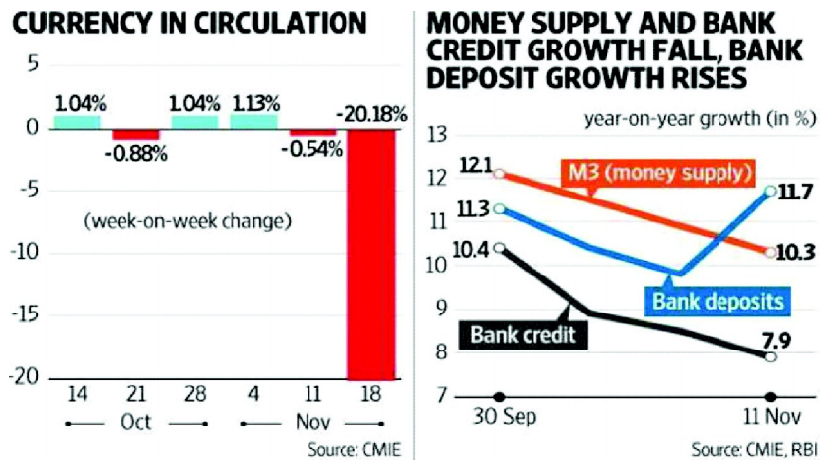
The Demonetization decision by the Indian Government on 8th November 2016, declared that its key objectives was to abolish fake currency and to address the problem of "unaccounted money" in the economy. Earlier, Demonetization was carried out lawfully in 1946 and 1978, with the same goal of addressing unaccounted money, but neither the RBI Act, nor the Banking Regulation Act, 1949, has empowered the government to impose restrictions on cash withdrawals or deposits in the manner it has been done in 2016. one percent of currency held in 1978 Demonetization and the 2016

To cite this article:

T. Kadalarasane & Tripura Sundari C.U. (2021). Demonetization and its Impact on Indian Consumers-Is it a Bone or Bane for the Economy. *Indian Journal of Finance and Economics*, Vol. 2, No. 1, pp. 37-51

Demonetization was believed that about 86 percent of cash transaction was in circulation with old Rs.500 and Rs.1,000 currency notes, such actions requires an authorizing legislation, either an Act of Parliament (RBI Act), or an Ordinance. According to the present Governor of RBI Shakti kanta Das “this is only a short-term negative impact of Demonetization on Indian economy and observed that this move will not have any material impact on tackling black money” (Is the Current Demonetization Legal? Many sections of the population like daily wage earners were brutally affected due to this measure. Prolonged cash shortage and the lengthy queues to exchange their banknotes during the week created a substantial disturbance throughout the economy, where nearly 100 people died due to this demonetization (India’s Demonetization Kills 100 People Apparently - This is Not An Important Number, Contributor, Tim Worstall, *www.Forbes.com*, Dec 8, 2016).

The impact of Demonetization during those few weeks of October and November, regarding money supply, bank deposit and currency in circulation is clearly revealed from the chart below.



Several case studies, paper articles and review have been on this demonetization, studies of Kadalasane and Sundari (2017), Krishnan and Siegel (2017), RBI (2017b), Agrawal (2018), Ashwani and Geethanjali (2019), Himanshu et.al (2018), Crouz *et al.*, (2019), and Gabriel *et al.*, (2019) are few selected reviews worked on Demonetization and its impact on Indian Economy

MOTIVATION OF THE STUDY

As per the report, the National Council of Applied Economic Research (NCAER) study “unaccounted wealth accumulated outside India is estimated to exist between USD 384 billion and USD 490 billion during the

1980-2010 periods". The National Institute of Financial Management (NIFM) suggest that "total illegal outflow at the India's current value (1990-2008) stands at Rs 9, 41,837 crore (USD 216.48 billion)". The National Institute of Public Policy and Finance (NIPFP) said that "the Black money stored outside India during 1997-2009, ranges from 0.2 per cent to 7.4 per cent of Gross Domestic Product.(The Hindu, 2011).And the "Government refuses to share details on such cases received from Switzerland, citing confidentiality", (PTI, March 17,2019)

SCOPE OF THE STUDY

The negative impact of demonetization was felt across the all segments of economy, especially agriculture and industry. Kavita Chacko, senior economist with Care ratings agency, says: "Demonetization led to disruptions in economic and industrial activity. The lower domestic GDP growth in the past two years is largely on account of demonetization and GST implementation led turbulence." To reduce corruption or black money this is not the only tool, the policies which Government suggests must be for the people's welfare and should not be a disaster. The middle and below poverty line people are the one who were affected by this policy.

OBJECTIVE AND METHODOLOGY

Based on the above theory it is apparent that the effect of Demonetization on common people (public) must be accountable. Hence the current paper attempts to measure the impact of demonetization on consumer (public) and producer who are the main players of the economy. Therefore, the following objective is framed: (i) to cross check the reason of Demonetization (ii) to get the opinion of common people regarding Demonetization (iii) bank employees view regarding demonetization. Secondary data from RBI and Economic survey is used to provide empirical evidence to verify the first objective and Primary data is used to check the objectives 2 and 3, for which data visualization technique, qualitative analysis and percentage methods is used and based on the above analysis policy suggestions are provided. The flow paper is as follows, section I deals with the introduction, motivation and scope of the study. Section 2 deals with detailed analysis on Demonetization and the analysis of the objectives 2 and 3 are presented in section 3. Finally the conclusion and policy suggestions are presented in section 4.

Section II

A detailed analysis on Demonetization, the currency, India's real GDP growth, currency in circulation to GDP growth, bank fraud, ATM

transaction, and distribution of national income in India, corruption index, and democracy index of India is presented in this section. The main objective of Demonetization was to stop illegal circulation of money (corruption or black money). India is known as cash based economy, where 98% of the transaction is done only by cash (Chart 1, the share of cash in volume of consumers from different part of the world).

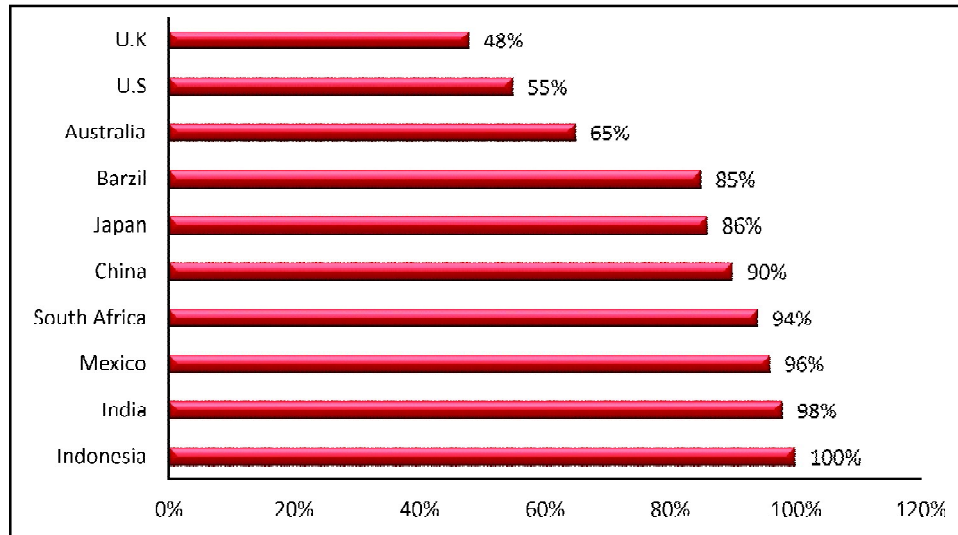


Chart 1: Share of Currency usage-Major Countries (in Volumes)

Source: Computed from Bloombeg, PWC 2015, U.S.GlobalInvestors'

Table 1 presents the distribution of national income in India, 2014. India is famous for its wealth inequality. According to the World Inequality Report 2018 "India emerged as the second most unequal region in the world after the Middle East". The surprising fact from table 1 is that the 10 per cent of the rich population in India share 54.20 per cent of the national income of the country. It is also clear from the table that the top 1 percent richest individuals of India captured twice as much growth as the bottom 50 percent in individuals. It is also interesting to note Rich people pay just 0.5 per cent extra tax on their wealth which in turn will raise money to increase government spending on health by 50 per cent.

Chart 2 provides the column chart along with the trend line that reveals the growth of currency in circulation since 2000. "Currency in circulation" is a significant measure in that can explain the success of demonetization (black money). The chart clearly reveals that the currency in circulation has undergone a drastic increase since 2000 has dropped in 2016-17 as a result

Table 1
The distribution of national income in India, 2014

Income group	number of adults	Income threshold	Average income	Comparison to average income (ratio)	Income share
Full Population	794 306 000	–	6 200	1	100%
bottom 50%	397 153 000	–	1 900	0.3	15.30%
middle 40%	317 722 000	3 100	4 700	0.8	30.50%
top 10%	79 431 000	9 200	33 600	5	54.20%
top 1%	7 943 000	57 600	134 600	22	21.70%
top 0.1%	794 000	202 000	533 700	86	8.60%
top 0.01%	79 400	800 100	2 377 000	384	3.80%
top 0.001%	7 900	3 301 900	11 589 000	1871	1.90%

Source: Chancel & Piketty (2017). World Inequality Report 2018

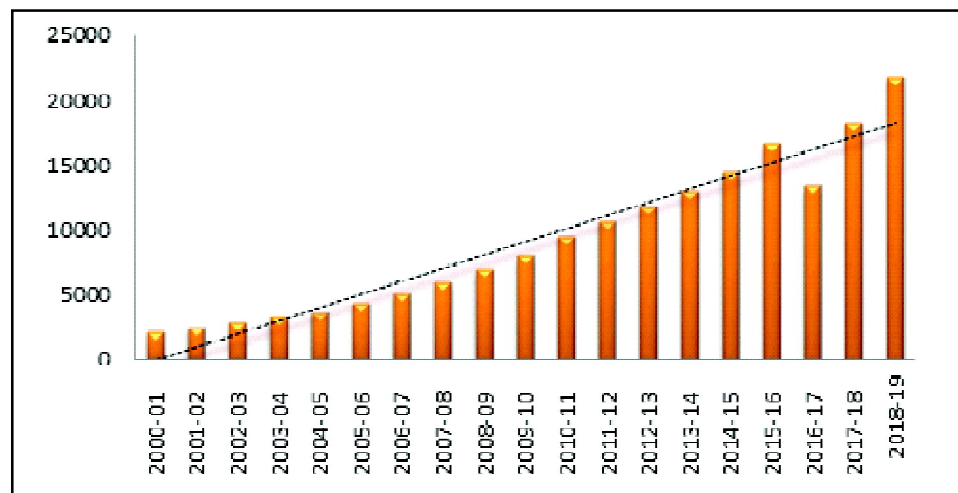


Chart 2: Currency in Circulation

Source: Computed from RBI

of Demonetization and then there is an increase in 2018 and 2019. (Two years after demonetization)

As the economy grows, the total amount of currency used in it economy also grows in absolute terms. So the size of the Indian economy is taken into account while calculating the currency in circulation to Gross Domestic Product(GDP¹) ratio (chart 3). The currency-to-GDP ratio in 2005 was 11.59 percent and it gradually grew and increased till 2015. Then there was a drastic fall to the extent of 8.7 percent (due to Demonetization notification) in 2016 and later it increased to 12.5 percent in 2018, which again proves the cash power of the economy.

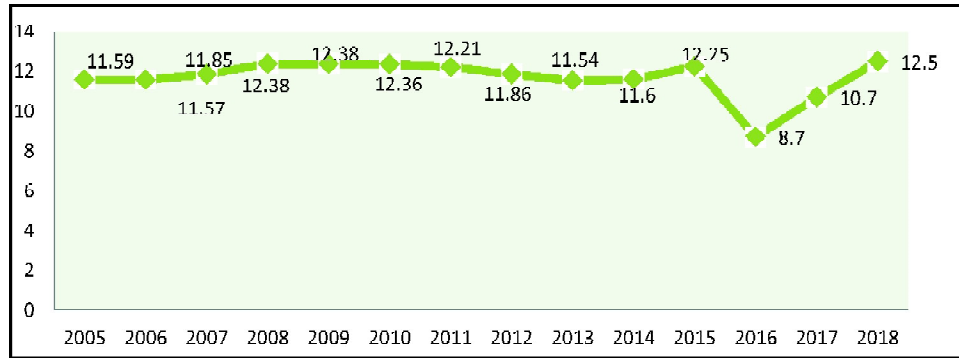


Chart 3: Currency in Circulation to GDP Ratio

Source: Committee on payments and market infrastructures, bank of international settlements, bloomberg. RBI

Chart 4 reveals India's real GDP growth since July 2016. It is clear from the quarterly data that the growth of gross domestic product, has declined three quarters after Demonetization. This Midnight notification had a negative effect on the consumers, people were to stand in a long queue to get their hard earned money ATM / banks. It was not only physical torture but psychologically they were affected. Dowry system is exclusive in India it has reported that where during the Demonetization period people were not able to get money for marriage and other functions at home which psychologically affected most of the people.

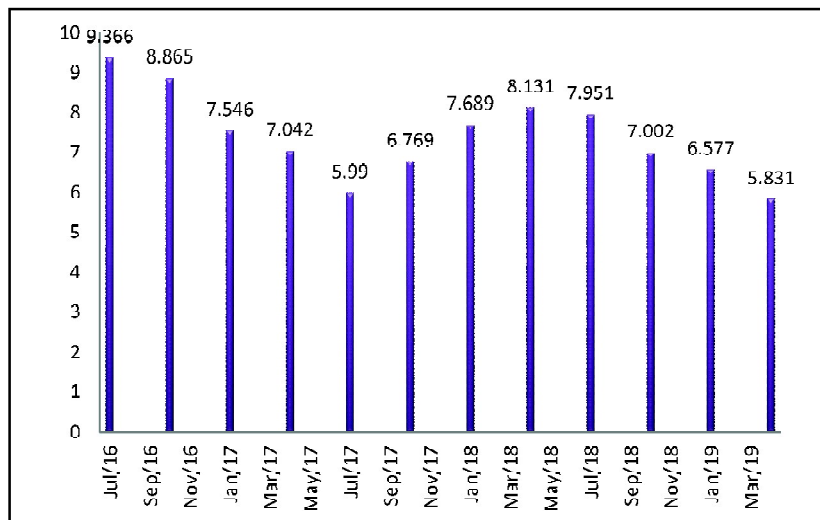


Chart 4: India's real GDP growth

Source: computed from CEICDATA.COM

According to a research note by Tata Communications Payment Solutions Ltd (TCPSL) “there is a need for at least 4 lakh ATMs in the next two years, from the present 2.22 lakh”, Access to basic financial services including ATMs has become most vital after Prime Minister Narendra Modi added 355 million people to the banking system since taking office in 2014. Chart 5 presents the Cash transactions through ATMs from March 2013 to 2019. It is clear from the chart that, from 11 percent in March 2013, debit card transactions through ATMs and point of sale (PoS) terminals gradually increased to 15 percent in March 2016 and remained the same in March 2017 due to demonetization, later has increased in the next two years after demonetization to a larger extent.

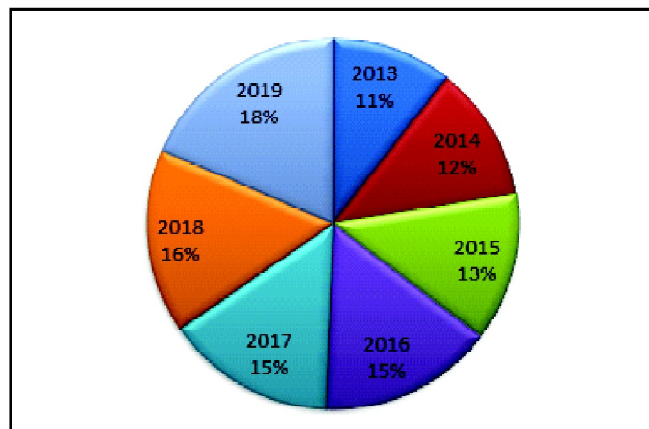


Chart 5: Debit and Credit Card Transactions at ATM (As on March 2013-19)

Source: Computed from International Monetary Fund

Table 2 presents the Country wise (Corruption Perception Index: The index, which ranks 180 countries and territories by their perceived levels of public sector corruption according to experts and businesspeople, uses a scale of 0 to 100, where 0 is highly corrupt and 100 is very clean. More than two-thirds of countries score below 50 on this year’s CPI, with an average score of just 43: <https://www.transparency.org/cpi2018>) CPI for 2017 and 2018, in spite of demonetization in 2016, the table reveals that the corruption in India is high. For 17th rank in 2017 it has increased to 22nd rank in 2018.

It is reported that during Demonetization period many bank frauds are reported by individuals in collusion with bank employees. The Reserve Bank of India report 2018-19 said that, “Over 6,800 cases of bank fraud involving Rs. 71,500 crore have been reported, 93 per cent of fraud cases worth more than Rs 1 lakh occurred in PSU banks while private banks accounted for six per cent.”.The instances of fraud have been rising over the last four

Table 2
Corruption Perception Index Score(2017-18) and in rank, country wise

Country	CPI Score 2018	Rank	CPI Score 2017	Rank
Denmark	88	1	88	2
New Zealand	87	2	89	1
Finland	85	3	85	3
Singapore	85	3	84	6
Sweden	85	3	84	6
Switzerland	85	3	85	3
Norway	84	7	85	3
Japan	73	18	73	20
France	72	21	70	23
United States of America	71	22	75	16
India	41	78	40	81

Source : www.transparency.org

years — by four times from Rs 10,170 crore in 2013-14 (Chart 6). 2017-18, frauds (was due to the over Rs 13,000 crore Punjab National Bank (PNB) case) are related to off-balance sheet operations, foreign exchange transactions, deposit accounts and cyber-activities. Banks reported more cyber frauds during the year, losing Rs 109.6 crore in 2,059 cases in 2017-18 as against Rs 42.3 crore with 1,372 cases the previous year, and in 2018-19, Rs 71,500 Crore Bank Frauds Reported In 2018-19 (RBI report).

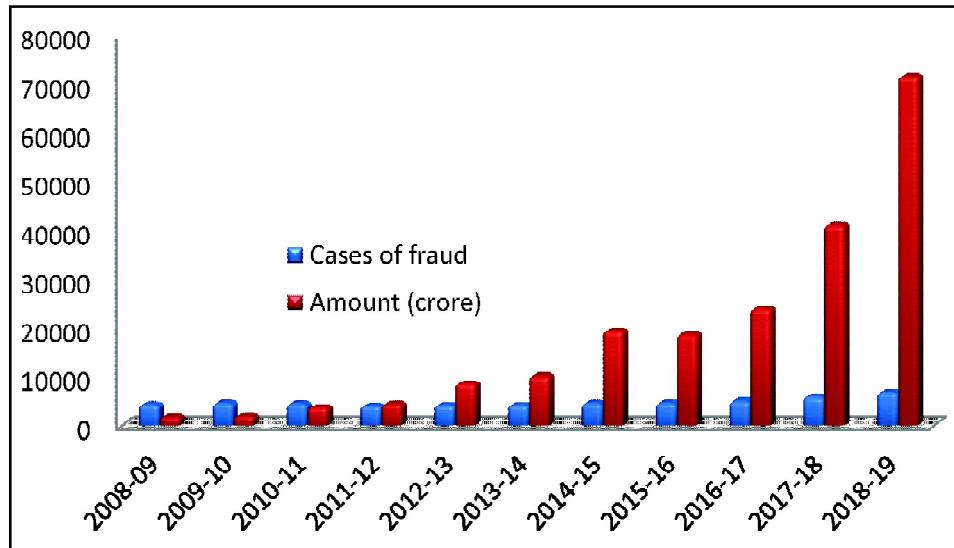


Chart 6: Frauds in Bank Operations (Before and after Demonstration)

Source: computed from RBI

Chart 7 clearly reveals the rising bad loans in public sector banks According to the Indian Express “even as public sector banks lent about 37 per cent of their total credit to the industry sector, the corporate and industry loans accounted for over 73 per cent of the total Non-Performing Assets (NPAs) of the banking sector in 2016-17 and Rs 71,500Crore Bank Frauds Reported in 2018-19”.

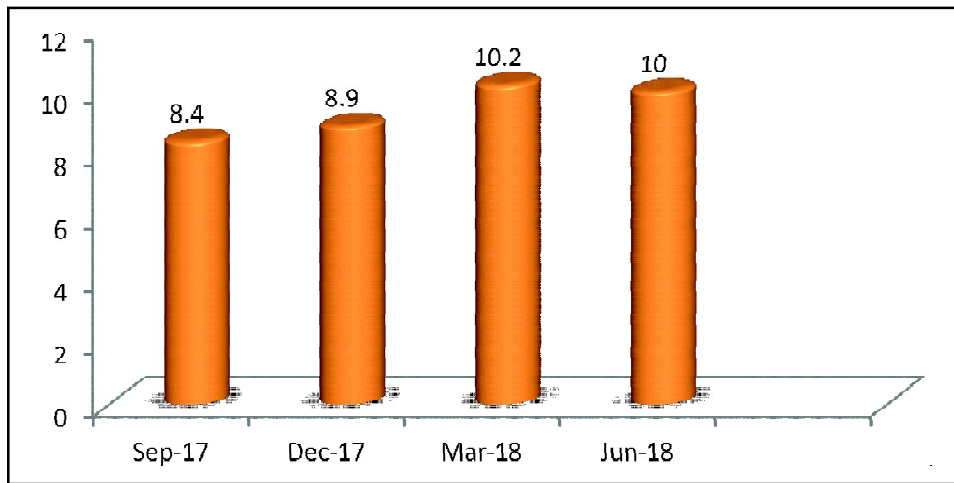


Chart 7: Gross NPAs of the Banks Rupees in Lakh Crore

Source: Computed from RBI

According to many reports & studies it was reported that Demonetization severely affected industries and business particularly small and medium enterprises leading to job loss. Business Standard reported that “India’s unemployment rate jumped to a record 6.1% in 2017-18, where it was at 2.2% in 2011-12, (Jan 31, 2019). From table 3 it is clear that unemployment is high in (2017-18) rural an urban, comparatively urban female are found to have lost the jobs as a result of demonetization.

Another important dimension of Demonetization is with regard to small business and enterprises particularly Women Entrepreneur since most of their activities are cash based .This category of business people and Women Entrepreneur also got affected seriously. Chart 8 reveals the Percentage of Establishments under women entrepreneur by major Source of Finance like, loan, borrowing, self-finance etc. It is clear from the table that almost 79% of the women establishments were self-financed. The second important source which is 14.5 % is from donation or transfer from other agencies. The next important sources were Assistance from Government and Borrowing from financial institutions which is 3.4% and 1.1 % respectively.

Table 3
Unemployment rates (in the labour force) according to usual status

Round (Year)	Rural				Urban			
	Male		Female		Male		Female	
	Usual status (ps+ss)	CWS	Usual status (ps+ss)	CWS	Usual status (ps+ss)	CWS	Usual status (ps+ss)	CWS
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
PLFS (2017-18)	5.8	8.8	3.8	7.7	7.1	8.8	10.8	12.8
68 th (2011-12)	1.7	3.3	1.7	3.5	3.0	3.8	5.2	6.7
66 th (2009-10)	1.6	3.8	1.8	4.2	3.8	5.2	6.9	9.0
55 th (1999-00)	1.7	3.9	1.0	3.7	4.5	5.6	5.7	7.3
50 th (1993-94)	1.4	3.1	0.9	2.9	4.1	5.2	6.1	7.9
43 rd (1987-88)	1.8	4.2	2.4	4.4	5.2	6.6	6.2	9.2
38 th (1983)	1.4	3.7	0.7	4.3	5.1	6.7	4.9	7.5
32 nd (1977-78)	1.3	3.6	2.0	4.1	5.4	7.1	12.4	10.9
27 th (1971-73)	1.2	3.0	0.5	5.5	4.8	6.0	6.0	9.2

Note: The figures are to be read along with the explanatory note for comparability.

Source: Annual Report: PLFS,2017-18

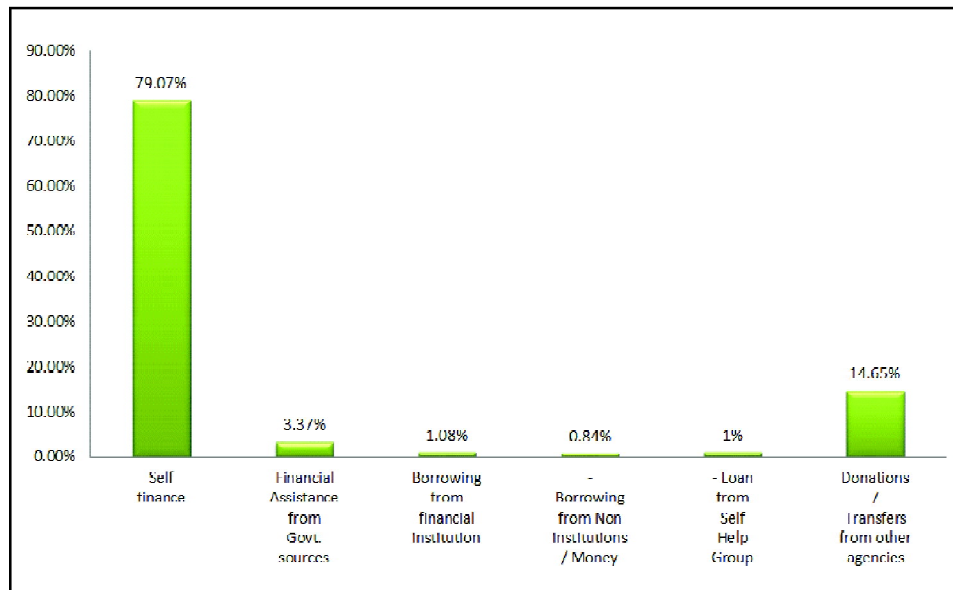
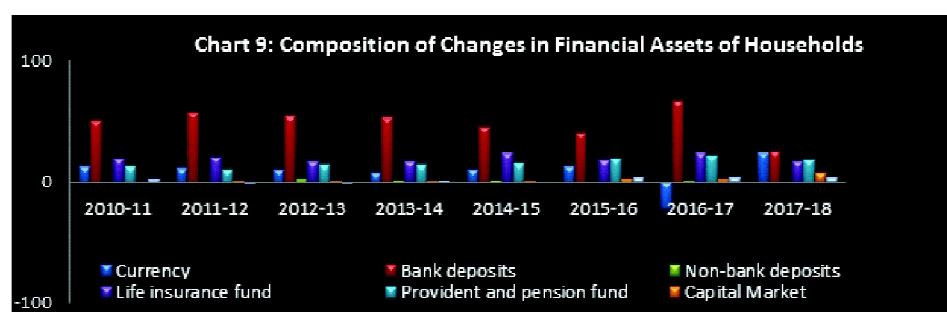


Chart 8 : Total number of Establishments under women entrepreneur by Major Source of Finance

Source: computed from All India Report on 6th Economic Census, 2016.

Demonetization has led to a shift in the composition or slowdown in the growth of households’ financial assets, the total amount of households’ gross financial assets fell. Indian economy is a saving economy and most of the savings is from households. At end-September 2016, this growth was higher, at 17.1% year-on-year. The RBI report says, “Indian households are generally net savers and suppliers of financial resources for the rest of the economy. However, net financial assets of the households turned negative the third quarter of 2016-17, there is currency and drop in the bank deposit increases in 2016-17 reflecting the transitory effects of Demonetization (chart 9).



Source: Computed from Data Base on Indian Economy, RBI.

India is a democratic country, Democracy implies “Power of common people”. The Democracy Index by countries is provided in table 4. The indicators which are used to calculate the poor of Indian people is very low when compared to other countries. It is termed as Flawed democracy, with a global rank of 41.

Table 4
Democracy Index Asia and Australia 2018

Country	Overall score	Global Rank	Regional rank	I Electoral process and pluralism	II Functioning of government	III Political participation	IV Political culture	V Civil liberties	Regime type
New Zealand	9.26	4	1	10	9.29	8.89	8.13	10	Full democracy
Australia	9.09	9	2	10	8.93	7.78	8.75	10	Full democracy
South Korea	8	21	3	9.17	7.86	7.22	7.5	8.24	Flawed democracy
Japan	7.99	22	4	8.75	8.21	6.67	7.5	8.82	Flawed democracy
Taiwan	7.73	32	5	9.58	8.21	6.11	5.63	9.12	Flawed democracy
India	7.23	41	6	9.17	6.79	7.22	5.63	7.35	Flawed democracy

Source: A report by The Economist Intelligence www.eiu.com

SECTION III

Primary Data Analysis

Primary analysis was collected with the help of a questioner. Total sample size of 100 respondents were from general public and about 25 were questioned regarding demonetization.

The current section deals with the objective 2 and 3 which is based on the information collected from the respondent with the help of a structured questionnaire. Data from 125 (100 are general public and 25 bank official) respondents were collected and analyzed. Enough number of Urban and Rural respondents is included in the sample. Most of the questions were of YES or NO type which is used to measure the response to each statement. The following are the result of the questionnaires which were collected from for common and bankers.

Findings

(i) General Public (100 Respondents)

- there were about 61.5% of male and 38.5% of female in the sample size
- here age group ranging from 18 to 60, and about 41.7% respondents belong to 28 to 36 age group of the sample size.
- Around 69% of the respondents have done the graduation and post graduation.
- They belong to the income group of 50000 to 5 lakh and above, and about 24% of the respondent belong to age group 1 lakh to 2 lakes income group.
- 60% of the respondents belong to urban population
- 93.8 %of the respondents owe a smart phone
- 98 %of the respondents owe a Debit card
- 82.3 %of the respondents owe a Credit card
- 52% of the public do not support demonetization , 50% feel that this is not a good step to the economyand 49% feel this measure is mainly because of political pressure
- 55% feel that black money will not be reduced due to this.74% feel that the economy is effected by demonetization
- about 49% of the respondents feel this this demonetization has affected all the group of people and middle class people and people

who are working on daily wages earn the money for their livelihood are the most affected people

- agriculture, manufacture, organised manufacture and services organised and servicesun organisedsector, transport and real estate business was affected due to demonetization
- about 51% of the respondents feel that it is not a good step to the economy it is not a good step to the business and it is not a success till date.

(ii) Perception of bankers regarding demonetization (25 respondents)

- there were about 68% of male and 32% of female in the sample size
- here age group ranging from 18 to 60, and about 52% respondents belong to 28 to 36 age group of the sample size.
- Around 88% of the respondents have done the graduation and post graduation.
- They belong to the income group of 50000 to 5 lakh and above, and about 40% of the respondent belong to age group 3 lakh to 5 lakes income group.
- 64% of the respondents belong to urban population
- 24% of the respondents are managers, 20% officers and 44% are clerks
- About 28% of the respondents work in pubic and private organization respectively
- years of experience; about 64% of the respondents have lesson five work experience, and 60% of the respondents have no idea about demonetization
- inconvenience during demonetization period :about 40% of the respondents feel that the time was terrible and about 52% of their respondent felt that it was a part of profession and 8% of the respondent did not face any difficulty
- all the repondednts feel that demonetization did not help the bank employee
- about 88% feel that demonetization had an impact on the work load.
- 44% of banking sector , 48% of money lenders, 44% online banking, 48% of plastic cards, 52% of new account holder and 52% of ATM functioning wasaffected due to demonetization.
- 50% of banking job market is shrunked,

- 64% opine that demonetization will not cut the black money
- About 48% of the bankers are unaware about demonetization prior to November 8th
- 52% believe that the digital transaction has increased after demonetization

The above primary analysis reveals that neither public nor the bankers are happy with the Demonetization and that it can never reduce the corruption. Due to demonetization the bank employees were made to work 24*7 for many days. They were stressed a lot and some of them even suffered serious health problems and death has also caused in one or two cases. Also, the public expressed that abolishing a lower denomination currency and introducing a higher denomination currency is not a correct move to abolish black money. India is an agriculture based economy. Due to the cash crunch, the farmers especially small and marginal who largely depend on cash to buy seeds, fertilizers and to pay for sowing, borrowing water for irrigation and for other related agriculture equipments remained worst affected and could not complete the crop related activity.

SECTION IV

Conclusion

India was not affected much from the Global recession 2008 due to RBI's regulations and monetary policy, which always helps helping India to overcome these problems. The monetary policy of RBI is best for a developing country like India. In spite of the warning given by the then Governors that this is not a tool for black money, the implementation of this demonetization has caused many distress in the economy because Demonetization had an adverse effects (like: reduction in Economic growth, increase in corruption and fraud , it caused short term financial and less cash was in circulation) on many sections of the population, daily wage earners, those without bank accounts, those dependent on the informal cash economy for the major source of their trade and livelihood.

Hence the following policy suggestions are provided:

- Indian politicians and bureaucrats must take a decisions to resolve public problems.
- Abolishing a lower denomination currency and introducing a higher denomination currency is not a correct move to abolish black money.
- Corruption can be cut through many ways, by torturing the public this is not the solution, Government must work be for people's welfare.

Note

1. Arvind Subramanian the chief economic advisor (CEA) to the Government of India summarizes his findings on the econometric work on India's gross domestic product (GDP) growth estimates. His results suggest that, "India's GDP could have been exaggerated by a magnitude of about 2.5 percentage points every year since 2011, amounting to a cumulative 19-21% during the whole period (2011-18)".

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