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DEMONETIZATION AND REMONETISATION OF INDIAN ECONOMY: AFTERMATH

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ABSTRACT
Demonetization is the process of withdrawal of a particular form of currency from circulation. It is a process wherein the old unit of currency must be retrieved and replaced with a new currency unit. It involves either introducing new notes or coins of the same denomination or completely replacing the old denominations with the new denomination which is usually carried out as an ambush on the black market. On the other hand, remonetisation refers to the introduction of new currency as a legal tender in an economy or restoring the value of some currency as legal tender previously discarded. To begin with let's talk about the India's journey of demonetization. The Indian currency was first demonetized in the year 1946 and second time in 1978. On 8 November 2016, the Modi government took a bold step of demonetising the Indian currency for the third time. Considering the importance and the influence of Indian economy in the global financial markets and the growth rate of India's GDP, this paper is an attempt to bring out the impact of such demonetization on the Indian economy.

KEYWORDS
demonetization, remonetisation, impact on India's GDP, impact on e-commerce, impact on black money and corruption, impact on digitization.

INTRODUCTION
Demonetization is the process of abandoning a currency unit of its status as legal tender. The old unit of currency has to be retired and replaced with a new unit of currency. It includes either introducing new notes or coins of the same denomination or completely replacing the old denomination with the new denomination which is often carried out as an ambush on the black money and market. The opposite of demonetization is called as remonetisation in which a form of payment is restored as legal tender.

Currency is defined as a most common accepted form of money, which includes coins and paper notes as well, and circulated within the economy. It is used as a medium of exchange for goods and services, and hence currency forms the basis for any trade. A country's respective central bank or a monetary authority issues the currency or legal tender for the country. The national currency of a country is usually the principal currency used for most of the financial transactions in that country.

The sudden move to demonetize Rs 500 and Rs 1,000 currency notes is not new to the world. Rs 1,000 and higher denomination notes were first demonetized in January 1946 and again in 1978. According to the RBI data, the highest denomination notes 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. The Rs 1,000 note made a comeback in November 2000. Rs 500 note came into circulation in October 1987. However, this was for the first time that Rs 2,000 currency note is being introduced. While announcing then 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. The banknotes issued during this period contained the symbols representing science and technology, progress and orientation to Indian art forms in place of previous watermark of Asoka pillar.

All banks and ATMs across the country were paralysed because of cash shortages, soon after the announcement of demonetization. Every small to big business, agriculture, and also transportation had faced many disadvantageous effects due to cash shortages. People wanting to exchange their old banned notes had to wait in long queues to get them exchanged. Several deaths were also reported to be linked to the difficulty in exchanging cash. The shortage of cash due to demonetisation process resulted in disorder and chaos, and mostly the people holding old currency notes faced difficulties in having them exchanged because of the endless queues outside banks and ATM machines across India. Only after a few hours of being operational the ATM's ran out of money, and about half of the ATMs in the country were not functional. Several deaths were reported standing in queues for long hours at the banks and ATMs to exchange their old banknotes. Deaths were also accounted for the lack of medical facilities or preparations due to denial of accepting old currency notes by the hospitals.

The collective effect of the demonetisation and US presidential election, in turn led to the fall of Indian stock exchange indices to a six-month low in the week which followed the announcement. On the very next day after the demonetisation announcement, BSE SENSEX lost nearly 1,689 points and NIFTY by over 541 points. At the close of the intraday trading as on 15 November 2016, the BSE SENSEX index was low by over 565 points and the NIFTY 50 index was below 8100 on intraday.

The first four days after the demonetisation witnessed about Rs. 3 trillion (US$45 billion) in the form of old currency notes of Rs. 500 and Rs. 1,000 being deposited in the banking system and an amount of Rs. 500 billion (US$7.4 billion) had been distributed through withdrawals from the deposited bank accounts, ATMs and exchanges over the bank counters. The Indian banking system handled almost 180 million transactions in merely four days. The State Bank of India reported to have received about Rs. 300 billion (US$4.5 billion) as deposits in just two days after demonetisation. A sudden hike was also reported in the online transactions with the usage of debit and credit cards. Evading techniques like Donations, Gold purchases, depositing in the Jan Dhan Scheme Bank Accounts, Multiple bank transactions, Railway bookings, Municipal and local tax payments, Backdated accounting were also reported to have happened. In Rajya Sabha the Union Finance Minister of State Arjun Ram Meghwal stated that 1,716.5 crore pieces of Rs 500 denomination notes and 685.8 crore pieces of Rs 1,000 notes were in circulation as on the November 8th 2016, the date on which demonetisation was announced. It actually sums up in a value which comes close to Rs 15.44 lakh crore.

OBJECTIVE
The sole objective of the study is to bring out the impact of demonetisation and remonetisation on the Indian economy with special reference to e-commerce, digitisation, black money and corruption.

METHODOLOGY
The research design to gain insight into the construct of demonetisation and remonetisation is chosen to be exploratory. For the same secondary data from various journals, newspapers published expert interviews, research papers that appeared on demonetisation and remonetisation were taken for the study.

IMPACT OF DEMONETISATION AND REMONETISATION
1) BLACK MONEY AND CORRUPTION
Black money and corruption is said to be positively related that is corruption will also be automatically reduced by removing black money from an economy.

By demonetization, Black money has been taken out of Indian system but only to an extent. As predicted by ICICI Securities Primary Dealership the government's plan to remove INR 500 and INR 1,000 notes from circulation will disclose up to INR 4.6 lakh crore in black money. But as reported by India ratings, a part of Fitch group demonetisation is likely to destroy about Rs 4.6 lakh crore worth of cash held in black money and fake currency, but it constitutes merely 12% of the black economy in India, leaving 88% of the black money to remain in the system. Instead, the economic cost of the de-legalisation will be around Rs 1.5 lakh crore for

2016-17, which has lowered its GDP (gross domestic product) growth forecast for the fiscal to 6.8%, 0.97% lower than its earlier projection. Although there are various estimates available about the size of the black economy in India, the World Bank had estimated the size of the black economy to be 23.2% of the GDP in 2007. Assuming that this proportion has now gone up to 25%, the size of the black economy for FY16 works out to be Rs 33.9 trillion. Also, it is well known that cash is only a small component of the black economy, and majority of the black income is held in the form of gold/jewellery, stocks, real estate and foreign currency merely demonetising currency is not a solution to curb black money in an economy. Further, It is unlikely that fiscally the government will benefit from Rs 4.004 trillion (Rs. 4.004 lakh crore) worth of cash destroyed in the de-legalisation process instead the government may face lower tax collections in the second half of FY17, due to the slowdown in economic activity. While there are no two opinions about the need to root out black income, the method chosen and its execution have inflicted unwarranted damage to the Indian economy.

2) e-COMMERCE

India had an internet user base of about 365 million as of June 2016 and is expected to cross 500 million by the end of 2016. Despite being the second-largest user base in world, only behind China (650 million, 48% of population), the penetration of e-commerce is low compared to markets like the U.S (266 million, 84%), or France (54 M, 81%), but is growing at an unprecedented rate, adding around 6 million new entrants every month. The industry consensus is that its growth is at an inflection point. In India, cash on delivery is the most preferred payment method, accumulating 75% of the e-retail activities. Demand for international consumer products (including long tail items) is growing much faster than in country supply from authorized distributors and ecommerce offerings. After demonetisation the leading e-commerce companies had to limit or suspend payments through cash-on-delivery, the most preferred choice of payment. Four months after fore-casting a 75% increase in Indian e-commerce in calendar year 2016, eMarketer, a US-based market research firm, cut its projection to 55.5%, or around $16 billion, citing the impact of demonetisation on order volumes. The researcher also trimmed its 2020 forecast to $47.45 billion from $79.41 billion it estimated in August. According to investment advisory firm Ambit Capital, the country's GDP for the year ending 2018 could be lower than the previously projected figure. The company says that thanks to demonetisation, India's GDP could drop to 5.8% from the earlier estimate of 7.3%.

However, this new system will lead more people to use traditional banking services like credit cards, debit cards, internet banking and others e-wallets like paytm, mobikwik, payUmoney, state bank buddy etc. which is a key factor in allowing consumers to buy online but it will take time for this kind societal change to take effect, so our forecast numbers for the out years are still lower than previous estimates.

3) TOURISM

Demonetisation has shed its gloomy shadow on the booming tourism and hospitality industry in India. The onset of the winter travel season has been stymied by the unexpected storm of demonetisation. People have curtailed overseas travel and instead are exploring various local tourist destinations. Getting money from banks and ATMs continue to be a hassle with no respite in sight. The travel and hospitality industries are facing a tough time. Many foreign trips sponsored by big brands largely done through cash transactions is negatively affecting tourism industry and revenues due to the ongoing cash crunch. India's hospitality industry has been severely affected as the hotels have lost a large number of pay-in-cash-only clientele due to demonetization. Around 60 percent drop in hotel bookings has been reported. Restaurants have seen many cancellations and cases of no show. Restaurant reservations in Delhi NCR dropped by 28%, in Mumbai by 7% and in Bengaluru by 2%. This disruption has largely affected small-time hoteliers and restaurateurs.

At present, the scenario of the Indian citizens is worse, even if they are rich in terms of money. The wealthy and luxury-driven travellers are shifting their plans and in some cases cancelling holidays completely. When the rich and exclusive clientele from Delhi and Mumbai shift their birthday / anniversary extravaganzas to Goa instead of Prague or London, it is clear that demonetisation has trimmed their budgets simply because of unavailability of money. It has resulted in a drastic transformation that has veered 'from International tourism to Domestic tourism'.

Not just travel and hospitality industry, but almost all sectors are feeling the impact of demonetisation. Not a single sector is immune to it. The industry's corporate clientele though is hit; the leisure segment is hit the hardest. Among the latter, the international leisure segment has been hit severely.

Impulse travelling too has come to a sudden halt. Visiting places like Dubai and Singapore as weekend trips have been suspended as of now. Business or work-related trips are something that cannot be overlooked or avoided are being delayed and only the most unavoidable trip are being taken up.

The accommodation section of hotels is much affected, but leisure segments like hotel banquets and high-end restaurants are feeling the pinch as weddings are being called off and many pre-bookings for different wedding ceremonies are also being cancelled. In addition to this, high-end restaurants are too facing drastic change as people are replacing fine-dining with pocket-friendly eateries.

RBI regulations also declared that foreign tourists could only exchange currency worth upto Rs 5,000 during the initial days of demonetisation. However, before the move, foreign passport holders were able to exchange as much as $3,000 (Rs 200,000). This means that visiting foreigners can now only exchange 2.5% of what they could before *notebandi*.

It has also affected employment that was based on tourism. Direct contribution of tourism to contribution was 5.5% in 2015 which dropped to 3.2% in 2016. Also, the Total contribution to employment was 8.7% which dropped to 3.0% in 2016.

4) ECONOMIC CONSEQUENCES

Chief Economic Adviser Arvind Subramanian in his Survey guessed demonetisation will shave off between 0.25 and 0.5 percentage points from GDP growth. It projected the real GDP growth for 2016-17 at 6.5%. The International Monetary Fund, taking demonetisation into account, cut India's GDP forecast for 2016-17 to 6.6% and for 2017-18 to 7.2%.

The medium-term fiscal policy statement in the budget emphasises that the effect of the note-ban would be short term and probably end by March 31. Some assumptions, however, appear to indicate under-confidence.

The budget says there will be a marginal dip in growth in the remaining months of the fiscal year. Factoring that in, the government has estimated nominal GDP growth for 2016-17 at 11%, lower than the Central Statistical Office's (CSO) projection of 11.9%. The CSO estimate, which does not take into account demonetisa-tion, puts real GDP growth at 7.1%. That means CSO has an average inflation expectation of 4.8%. If inflation rate averages at 4.8%, then real GDP growth, according to budget numbers, should be 6.2%, lower than the Economic Survey's projection of 6.5%.

To be fair, if the rate of inflation continues to dip, the number could be closer to the Survey's prediction. The Survey says economic output in 2017-18 would likely be between 6.75% and 7.5%. That is on the assumption that the economy will bounce back to normalcy and the effects of demonetisation would not spill over into the next year. It is not a certainty.

The government's revenues shot up in the first nine months of the year but again the trend may not hold in the last quarter as a sizeable amount of tax would have been paid in advance before December to use up old notes of Rs 500 and Rs 1,000.

The last two months of the financial year are also when investments see a spike and consumer spending dips as individual taxpayers put money in savings instead of discretionary spending.

However, despite demonetisation, GDP growth has been pegged at 7% in quarter ending December 2016, while overall growth for FY 2016-17 has been estimated at 7.1%. This is in stark contrast to various estimates, including the International Monetary Fund's which had expected economic growth to fall to 6% in the second half of the current fiscal year. This has further hinted that GDP numbers would probably not capture the impact of demonetisation pain, as India's official statistical machinery has limited capability to measure its huge informal economy.

CONCLUSION

While there are no two opinions about the need to root out black income, the method chosen and its execution has inflicted unwarranted damage to the Indian economy. "Global experience, including that of India, in the past has shown that the impact of such measures have been fairly short-lived as it does not attack/plug the mechanism that gives rise to black income. India followed the de-legalisation route twice in the past, first in 1946 and then 1978.

The big challenge has been that of implementation. The government must have made some trade-offs between keeping the secrecy of the mission vs. consulting all stakeholders and creating a full proof implementation plan. World's one of the biggest economist Dr. Manmohan Singh said Commenting on the impact of demonetisation on GDP, "Demonetisation has hurt the country very badly. Things have gone from bad to worse in the past few months. Some say the GDP can be as low as 6.3 per cent. We can imagine that what kind of a disaster demonetisation is…When the GDP goes down, then employments will fall, production will fall, agriculture income will fall. What a disaster this demonetisation has caused?"

However, the GDP in numbers has shown no impact of demonetisation as it hardly takes into account the huge informal sector of the economy. For the time being one can conclude the positive effect that demonetisation had was facilitating the digitisation programme of the government, which became necessary in the phase of cash crunch. However, no such positive effects of the demonetisation been seen in any aspect of the economy so far.

It seems as if this is just the calm before the storm. We hope that the storm of demonetisation will calm and settle down soon. And the Indian citizens can get over this shock and get on to digital payments.

Since it is an exploratory study, the results of this study cannot be generalised. For that one needs to conduct a conclusive research. Further research can be conducted to highlight the only positive impact of demonetisation as a factor enabling digitisation in India.

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