

Public Perception of the Impact of Demonetization in India : An Empirical Study

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Abstract

Demonetization is the act of stripping a currency unit of its status as legal tender which occurs whenever there is a change of national currency. On the eve of 8th November 2016, the Prime Minister of India announced the demonetization of the Rs. 500 and Rs. 1000 currency notes with immediate effect, with a very few exceptions. This was a surprise move by the government to curb and control black marketing. However, no single person was left unaffected by this. It affected different people differently. It is believed to have specially hit the poor and people living in the remote areas of India. This paper was conducted in January-February and is an attempt to assess the perception of the people about the impact of demonetization. This study is useful for determining the perception of the people towards the recent event of demonetization in India. It can help the government to know about what people feel about the demonetization, what were its effects on them and what steps can the government take to improve the situation. It is to be noted that the study was undertaken in January-February 2017. Though the situation is under control now, people who do not have any bank accounts and even those who have accounts in cooperative banks are still recovering from the negative effects of the note ban.

Keywords : Demonetisation, India, national capital region, public perception

JEL Classification : A 10, E 41, E 42, E 52.

1. INTRODUCTION

Demonetization is the act of stripping a currency unit of its status as legal tender which occurs whenever there is a change of national currency. The current form or forms of money is

pulled from circulation and retired, often to be replaced with new notes or coins. Sometimes, a country completely replaces the old currency with new currency. The opposite of demonetization is remonetization, in which a form of payment is restored as legal tender.

There are multiple reasons why nations demonetize their local units of currency like:

- to combat inflation.
- to combat corruption and crime (counterfeiting, tax evasion)
- to discourage a cash-dependent economy
- to facilitate trade



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Many countries, like Soviet Union, Britain, Ghana, Australia to name a few, have had in the past adopted demonetization, mainly to achieve one or more of the above mentioned objectives.

2. HISTORY OF DEMONETIZATION IN INDIA

a) **Demonetization in 1946** : On January 11, 1946, the British government announced that notes of Rs. 500, Rs. 1000 and Rs. 10,000 will not be legal tender from January 12, 1946, and gave little time for exchange. This was done to curb black marketing. The ban did not have much impact, as the currency of such higher denomination was held by only 3 per cent of India's population and was not accessible to the common people. The crown princes were exempted from the same and only 40 per cent of today's India-Pakistan-Bangladesh (the area directly controlled by the British) was in effect of the demonetization. The old notes were being sold at 60 or 70 per cent of their price. The move was called a 'death blow' to black marketers. However, by the end of 1947, out of a total issue of Rs. 143.97 crores of the high denomination notes, notes of the value of Rs. 134.9 crores were exchanged and thus, notes worth only Rs. 9.07 crores were demonetized. The measure did not succeed, as it turned out to become more like a currency conversion drive.

b) **Demonetization in 1978** : The High Denomination Bank Notes (Demonetization) Act was instated by the Janata Party coalition government on January 16, 1978. The then Prime Minister of India, Morarji Desai, announced the currency ban by taking Rs. 1000, Rs. 5000 and Rs. 10,000 out of circulation to curb counterfeits and black money generation in the country. There was a prohibition of transfer and receipt

of high denomination banknotes and all banks and government treasuries had to send the total value of the high denomination banknotes held by them at the close of business on January 16, 1978, to the Reserve Bank. People were given time till January 24, 1978, to exchange these notes. On 16 January 1978, it was through the All India Radio's (AIR) 9 am news bulletin that people were informed about the policy decision. It added that all banks and treasuries would be closed the next day, on 17 January. The move was not a successful one as very few people possessed banknotes of higher denominations.

c) **Demonetization in 2016** : On 8 November 2016, the Government of India announced the demonetization of Rs. 500 and Rs. 1,000 banknotes of the Mahatma Gandhi Series to curb black money and counterfeit cash used to fund illegal activities and terrorism. Prime Minister Narendra Modi announced the demonetization in an unscheduled live televised address on 8 November 2016 at 8 pm. He declared the use of these notes invalid past midnight, and announced the issuance of new Rs. 500 and Rs. 2000 banknotes of the Mahatma Gandhi New Series in exchange for the old banknotes. However, petrol, CNG and gas stations, government hospitals, railway and airline booking counters, state government recognised dairies and ration stores, and crematoriums were allowed to accept the banned Rs. 500 and Rs. 1,000 notes until December 2, 2016. Banks had received a total of Rs. 14.97 trillion (\$220 billion) as of 30 December out of the Rs. 15.4 trillion that were demonetized.

Cash withdrawals from bank accounts and ATMs were restricted and the restriction limit changed multiple times based on the increase in the circulation of the new notes.

Under the revised guidelines issued on 17 November 2016, families were allowed to withdraw Rs. 2,50,000 for wedding expenses from one account provided it was KYC compliant. The rules were also changed for farmers who were permitted to withdraw Rs. 25,000 per week from their accounts against crop loans.

In 2012, the Central Board of Direct Taxes had recommended against demonetization, saying in a report that "demonetization may not be a solution for tackling black money or economy, which is largely held in the form of benami properties, bullion and jewellery." According to the data from income tax probes, black money holders kept only 6% or less of their wealth as cash, suggesting that targeting this cash would not be a successful strategy.

On 28 October 2016, the total banknotes in circulation in India were Rs. 17.77 trillion (US\$ 260 billion). In terms of value, the annual report of Reserve Bank of India of 31 March 2016 stated that the total banknotes of Rs. 500 and Rs. 1,000 in circulation valued to around Rs. 14.18 trillion (US\$ 210 billion).

People tried to hide their black money by purchasing gold, by giving as donations in temples, by conducting multiple transactions at different bank branches, by sending hired people and employees in groups to exchange large amounts of banned currency at banks, by booking railway tickets particularly in classes 1A and 2A for the longest distances possible and by paying municipal and local body taxes.

The decision met with mixed initial reactions. Several bankers like Chandra Kochhar (MD & CEO of ICICI Bank) and Arundhati Bhattacharya (Chairperson of State Bank of India) appreciated the move in the sense that it would help curb black money. Businessmen Anand Mahindra (Mahindra Group), Sajjan Jindal (JSW Group and Kunal Bahl (Snapdeal and Free Charge) also supported the move adding that it would also accelerate e-commerce. Infosys founder Mr. N. R. Narayana Murthy praised the

move. The move was heavily criticized by Nobel laureate Indian economist Amartya Sen, former Senior Vice-President and Chief Economist of the World Bank, Kaushik Basu and former Chief Statistician at Planning Commission of India Pronab Sen. As the demonetization was opposed in both houses of the Parliament, it triggered nation-wide strikes.

The sudden nature of the announcement of demonetization and the prolonged cash shortages in the weeks that followed created significant disruption throughout the economy, threatening economic output. The move was heavily criticised as poorly planned and unfair, and was met with protests, litigations and strikes. As the cash shortages grew in the weeks following the move, the demonetization was heavily criticised by prominent economists and by world media.

3. RESEARCH METHODOLOGY

a) Objectives

- a) To know the people's perception about the recent event of demonetization that happened in India.
- b) To know about the overall effect of demonetization on the people.
- c) To know about the difficulties faced by the people due to this move.

b) Research Design

The research design adopted is exploratory because no previous study is done on the citizens' perception of the recent event of demonetization in India.

c) Data Sources

a) Primary Data Sources

Primary data was collected with the help of questionnaires based survey from the people.

b) Secondary Data Sources

Secondary data was collected from the various websites on the internet, newspapers, magazines and journals.

d) Scope of the Study

This study is useful for determining the perception of the people towards the recent event of demonetization in India. It can help the government to know about what people feel about the demonetization, what were its effects on them and what steps can the government take to improve the situation. It is to be noted that the study was undertaken in January-February 2017.

e) Research Instrument

Data was collected with the help of a structured, non-disguised questionnaire. The questions were of a mixed type. The questionnaire is attached in the annexure.

f) Place of Study

The place of study chosen was the National Capital Region.

g) Sampling Technique

Snowball sampling technique, a type of non-probability sampling technique, was used in which a small group of initial respondents were asked to recruit more respondents because majority of the people who were approached to fill the questionnaires refused due to the sensitive issue of the topic of research and hence, it was difficult to convince people to respond voluntarily.

h) Sample Size

The sample size taken was 120 people.

i) Limitations of the Study

- i) The sample size is only 120. Out of all the people contacted to fill the questionnaires, a large number of them refused to volunteer due to the sensitivity of the issue of demonetization and the fear that the survey was being conducted by the government to catch hold of people with high income and those who are against the move of note ban.

- ii) People's biasness could not be eliminated.
- iii) Paucity of time was also a constraint.
- iv) The findings may not be applicable to other places in India.

4. DATA ANALYSIS

The study revealed that the respondents had a mixed view regarding the move of demonetization in India. 50 per cent of the respondents said that the sudden note ban was not a bad move. 61.67 per cent said that demonetization was not the only way for the government to get hold of black money because they believe that black money is not held by people in the form of cash but either in the form of gold or deposited in bank accounts abroad.

The respondents had a mixed reaction for whether both Rs. 500 and Rs. 1000 notes must have been banned at the same time because this move had both positive and negative impacts on the people. 47.5 per cent agreed that putting a ban on both Rs. 500 and Rs. 1000 notes was correct and 72.5 per cent said that the process of demonetization had several loopholes. 70.83 per cent said that Rs. 1000 notes must be reintroduced in the market and 80 per cent said that they found it difficult to exchange the new Rs. 2000 notes for their daily transactions. They also said that there was no availability of debit or credit card swiping or digital payments in small retail shops and with vegetables and fruits vendors.

45.83 per cent of the respondents said that the note ban was not well planned as opposed to 35.83 per cent of the respondents who said that it was well planned because the government kept repeatedly changing the rules regarding the withdrawal of money from the banks and the ATMs, there were less number of Rs. 100 notes in circulation than what was required to keep the economy running and it seemed that the government had not thought about the negative impacts of demonetization

on the lives of the common people, especially those who did not have any bank accounts.

72.5 per cent of the respondents said that the process of demonetization had several loopholes because people bought huge amounts of gold jewellery, donated in temples, conducted multiple transactions at different bank branches and booked railway tickets for the longest distances possible, with old banknotes. It was after a long time that regulations were imposed on these.

45 per cent of the respondents said that the initial effect of demonetization on the people was negative and 65 per cent said that this move disturbed their routine because they had to take leaves from work and stand in queues for long hours to deposit or exchange their old Rs. 500 and Rs. 1000 notes. Out of the three reasons given by the government to demonetize the Rs. 500 and Rs. 1000 notes, 41.17 per cent of the respondents believe that it was done to tackle black money and 29.17 per cent each believe that it was done to tackle and reduce corruption and to eliminate fake currency and dodgy funds.

55 per cent of the respondents said that demonetization had a negative impact on the real estate industry because cash transactions are prevalent in this industry. 46.67 per cent said that demonetization will help in reducing the prices of real estate because there is very high involvement of cash transactions done in black money in this industry which would become difficult due to the note ban. 17.5 per cent said that the property rates will not reduce due to this move because the severity of the impact on the industry would be short lived.

65 per cent of the respondents said that demonetization disturbed their routine because they had to take holidays from work and stand in long queues to exchange and deposit their old banknotes and many of the shopkeepers did not have any provision for card swiping and accepting digital payments in exchange of products, including milk and vegetables.

60.83 per cent said that demonetization has put a check on black money and corruption because the operations of the Maoists, Naxalites and the hawala dealers all over India were affected. More than one third of them also said that the tourism and the real estate industries and the families that had marriage functions were largely affected due to this move. 25 per cent of the respondents said that demonetization has led to an increase in the supply of fake currency notes in the market because huge amounts of fake currency of the new Rs. 500 and Rs. 2000 notes were seized from all over India within a couple of days of their introduction in the market but 47.5 per cent disagreed because the already prevalent supply of fake currency of the old Rs. 500 and Rs. 1000 notes became useless.

90 per cent of the respondents said that the effect on tourists was harsher as compared to others because they had old notes with them which they found difficult to exchange, they were stuck wherever they were due to transportation being affected and they had difficulty in purchasing basic things such as food items. In addition to this, they were also worried about the old notes that were there at their homes because these had to be deposited and exchanged but the tourists were stuck.

48.33 per cent of the respondents said that demonetization will have longer lasting effects than what were predicted by the government because its implications on the economy were not rightly forecasted. 54.17 per cent said that the government must have stopped the supply of the Rs. 500 and Rs. 1000 notes in the ATMs and replaced them with the Rs. 100 notes a fortnight or month before imposing the ban to insure that the common people did not suffer due to the sudden cash crisis; there were several instances of money withdrawn by the people in the form of Rs. 500 and Rs. 1000 notes from the ATMs just 15 minutes prior to the announcement which eventually added to the number of notes that

these people had to deposit or exchange from the banks.

5. FINDINGS

- a) In the first four days after the announcement of the step, about Rs. 3 trillion (US\$ 45 billion) in the form of old Rs. 500 and Rs. 1,000 banknotes had been deposited in the banks and about Rs. 500 billion (US\$ 7.4 billion) had been dispensed via withdrawals from bank accounts, ATMs as well as exchanges over the bank counters.
- b) There was a spike in the usage of debit cards and credit cards after the demonetization.
- c) The surrender rate of Maoists and Naxalites reached its highest since the demonetization was announced, according to reports because the money that these organizations had collected over the years was left with no value.
- d) Hawala dealers in Kerala, Maharashtra and Jammu and Kashmir were affected along with a reduction in their operations and transactions.
- e) The scarcity of cash led to chaos, and most people holding old banknotes faced difficulties exchanging them due to endless lines outside banks and ATMs across India. ATMs ran out of cash after a few hours of being functional, and around half the ATMs in the country were non-functional. As of 18 December 2016, there were still long queues at banks and ATMs. Three months after the withdrawal of banknotes, a quarter of the ATMs were still short of cash.
- f) Several people were reported to have died from standing in queues for hours to exchange and deposit their old banknotes. Deaths were also attributed to lack of medical help due to refusal of old banknotes by hospitals. As of 18 November 2016, the attributed death toll was 33.
- g) As a combined effect of demonetization and the US Presidential elections, the stock market indices dropped to an around six month low in the week following the announcement. The day after the demonetization announcement, BSE SENSEX crashed nearly 1,689 points and NIFTY 50 plunged by over 541 points.
- h) About 8,00,000 truck drivers were affected with scarcity of cash, with around 4,00,000 trucks stranded at major highways across India. Major highway toll junctions on the Gujarat and Delhi-Mumbai highways also saw long queues as toll plaza operators refused the old banknotes.
- i) Many farmers had insufficient cash to purchase seeds, fertilisers and pesticides needed for the plantation of rabi crops usually sown around mid-November. Farmers and their unions conducted protest rallies in Gujarat, Amritsar, Muzaffarnagar against the demonetization as well as against restrictions imposed by the Reserve Bank of India on district cooperative banks which were ordered not to accept or exchange the demonetized banknotes. Demonetization led to unavailability of cash to pay for food products and hence, farmers were unable to recover even the costs of transportation from their fields to the market from the low prices offered. This forced the farmers across the country to dump their products in desperation.
- j) By the second week after demonetization, cigarette sales across India witnessed a fall of 30% 40%, while e-commerce companies saw up to a 30% decline in cash on delivery (COD) orders and an increase in digital payments.

- k) The demand for card swipe machines increased. E-payment options like PayTM, Freecharge, Mobikwik and PayUMoney also saw a rise.
- l) There was a reduction in industrial output as industries were hit by the cash crisis. The Purchasing Managers' Index (PMI) fell to 46.7 in November 2016 from 54.5 in October 2016, recording its sharpest reduction in three years.
- m) Income Tax departments raided various illegal tax-evasive businesses in Delhi, Mumbai, Chandigarh, Ludhiana and other cities that traded with demonetized currency. Large sum of cash in defunct notes were seized in different parts of India.
- n) Huge amounts of cash in the form of new notes were also seized all over the country after the demonetization. As of 10 December 2016, Rs. 242 crores in new notes had been seized.
- o) Fake currency of the new Rs. 500 and Rs. 2000 banknotes were also seized from many places in India.
- p) There was a loss of jobs, particularly in the unorganized and informal sector and in small enterprises due to the cash crunch.

6. CONCLUSION

The study revealed that the people were affected by the sudden move of demonetization of the Rs. 500 and Rs. 1000 notes. The initial impact on the people was negative, with several people even dying due to standing in queues and many losing their jobs due to the cash crunch. The families that had marriage functions were largely affected because not only majority of the transactions like paying for tent, marriage band, raw food items like vegetables and rice,

clothes and printing the wedding cards are done by cash transactions but also envelopes carrying cash are given to the guests as a sign of good omen and to thank them for attending the marriage. The tourism industry was also negatively affected. Long queues outside banks and dysfunctional ATMs were the major reasons for the people's discomfort.

The process of demonetization had several loopholes which the government tried to reduce by changing the rules and guidelines whenever there were such reports. The use of debit and credit cards and digital payments increased, which is one step forward in Prime Minister Narendra Modi's vision of making India a digital economy. The move of demonetization was a blow to the people dealing in black money as their operations were affected, including that of the Maoists, Naxalites and the hawala dealers.

The move was more of a currency conversion drive because banks received Rs. 14.97 trillion as of 30 December out of the Rs. 15.4 trillion that were demonetized. People also purchased gold and gave donations in temples with the old Rs. 500 and Rs. 1000 notes to get rid of the excess money. There were several protests, litigations and strikes as the move was heavily criticized as poorly planned because of the problems that the common people faced.

Overall, people all over the country faced a lot of difficulties in the initial months since the announcement of the move of the government to demonetize the Rs. 500 and Rs. 1000 notes. Though the situation is under control now, people who do not have any bank accounts and even those who have accounts in cooperative banks are still recovering from the negative effects of the note ban.

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