

Demonetisation: A SWOT analysis

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Abstract

On November 8, 2016, India has seen a few historic announcements from the Prime Minister's office in relation to cancelling the high denomination of 500 and 1000 rupee notes. The high denomination currency notes make about ~85% of the total cash circulated in India. In the announcement, PM Narendra Modi declared that use of all 500 and 1,000 banknotes would be invalid after midnight of that day, and announced the issuance of new 500 and 2,000 banknotes of the New Series in exchange for the old banknotes. This paper makes an attempt to do an in-depth analysis of the strengths and weaknesses that are integral to this hard-hitting measure. This paper also analyzes the broader opportunities and threats to identify the potential problems. Here this paper would try to identify the risks and rewards hidden in this decision and what could have been a better option while implementing this sudden change without affecting the common people of India.

Keywords: demonetization, strengths, weaknesses, opportunities, threats

1. Introduction

Demonetization is defined as an act of stripping a currency unit of its status as legal tender. Demonetization is a radical monetary step in which a currency unit's status as a legal tender is declared invalid. This is usually done whenever there is a change of national currency, replacing the old unit with a new one. Demonetization is not a new concept in the past also it has been utilized by various countries as well as India to curb currency some failed very badly with this move. Zimbabwe, Fiji, Singapore and Philippines were other countries to have opted for currency demonetization. SWOT analysis is a process that identifies the strengths, weaknesses, opportunities and threats of anything. Specifically, SWOT is a basic, analytical framework that assesses what can be done and cannot be done, as well as its potential opportunities and threats. A SWOT analysis takes information from an environmental analysis and separates it into internal strengths and weaknesses, as well as its external opportunities and threats. Strengths describe what a thing excels at, allowing decisions on how to gain a competitive advantage. Weaknesses stop a thing from performing at its optimum level. They have the potential to reduce progress or to give a competitive edge to the competition. Opportunities refer to favorable external factors that a thing can use to its advantage. If utilized effectively, opportunities have the potential to create a competitive advantage. Threat refers to factors that have the potential to negatively impact anything.

1.1 History of demonetisation in India

1. First Demonetization - 12 Jan 1946 (Source: RBI History 1935-51, pg 706)

Following the action in several foreign countries, including France, Belgium and the U.K., the Government of India decided on demonetization of high denomination notes, in January 1946. It is interesting that as early as April 7, 1945, suggested similar action in India as 'one more concrete example for the Indian Government to follow in its fight

against black market money and tax evasions which have now assumed enormous proportions.

2. Second Demonetization - 16 Jan 1978 (Source: RBI History 1967-81, RBI Balance Sheet, RBI Currency and Finance Report)

On 16 Jan 1978, the ordinance was announced via All India Radio at 9 AM. The Ordinance provided that all banks and government treasuries would be closed on 17 January 1978 for transaction of 'all business except the preparation and presentation or the receipt of returns' that were needed to be completed in the context of demonetization. This time public was given even lesser time of 3 days to exchange Rs 1000, Rs 5000 and Rs 10000 notes.

1.2 Latest demonetisation in India

On November 8 evening at 8:15 p.m., Prime Minister Modi, in his televised address to the nation, made Rs 500 and Rs 1000 notes invalid, saying that it was aimed at curbing the "disease" of corruption and black money which have taken deep root. People holding notes of Rs 500 and Rs 1,000 can deposit the same in their bank and post office accounts from November 10 till December 30. All notes in lower denomination of Rs 100, Rs 50, Rs 20, Rs 10, Rs 5, Rs 2 and Re 1 and all coins continued to be valid, and new notes of Rs 2,000 and Rs 500 were introduced. There was no change in any other form of currency exchange be it cheque, DD, payment via credit or debit cards etc. The total value of old Rs.500 and Rs.1000 notes in the circulation is to the tune of Rs.14.2 trillion, which is about 85% of the total value of currency in circulation. This movement rendered everyone surprised as this was momentous decision and unexpected one which was declared without any prior information.

1.3 Objectives of the study

1. To highlight what are the Strengths and Weaknesses of Demonetization.

2. To also highlight what are the Opportunities and Threats of Demonetization.

1.4 SWOT Analysis

The deadline that the Prime Minister Modi had set is over. So, now it's time to identify the strengths, weaknesses, opportunities and threats of a major economic decision of demonetization.

1.5 Strengths

- **Black money:** The very most important aim of demonetization is to curb the black money with the people. This move was a very shocking for those who had unaccounted cash of Rs.500 and Rs.1000 notes.
- **Counterfeits:** Many numbers of transactions in a parallel economy is being done with the counterfeit notes which are widely circulated. The elimination of fake currency is inevitable, and one also hopes that a check is well in place while these notes are routed through banking channels. It will be a tremendous achievement.
- **Countering Terror & Crime:** Through demonetization there was a drastic fall down in the terror activities in the country as well as crime rate has also come down because, people are left with no cash to make the crime happen. While the government has clearly pointed out the use of fake currencies by terror outfits, some have spoken about uses of cash by criminals.
- **Timing:** No timing is perfect, but in hind-sight, the timing seems obvious. If we connect the dots, the very first decision of Modi Govt was to establish a SIT on Black Money. Then came the massive roll-out of the Pradhan Mantri Jan-Dhan Yojana (PMJDY) nearly completing all citizens' access to bank accounts. The next was crack down on hoarders /foreign accounts (approximately RS. 80,000 Cr was collected). Then followed the Income Declaration Scheme, with a deadline of 30th Sept 2016. Another window of opportunity was given to people to declare their amassed wealth. (Rs. 65,000 Cr collected) Now, if you still have the Black Money, the government will ensure that either you declare and become mainstream or else face the hammer. Commendable chronology!
- **Cashless economy:** By ensuring that all transactions are digitized, the Modi government is also pushing people to opt for a cashless economy. Such an economy aims to ensure that the corruption is minimized and the money in circulation can be traced.
- **Special features:** The new notes have come up with some additional features which makes difficult to replicate.

1.6 Weaknesses

- **Preparedness:** The entire banking and postal system were caught unaware. The government says that it will now take two more weeks to configure all ATMs. The situation is testing in small towns, most ATMs are still not dispensing cash, and some branches are easily running out of cash. It seems that the planning ahead of such massive event lacked matching preparedness. A maximum cap of Rs 2500 was leveled on withdrawals in a day. The lines were long and unending. People even lost their lives standing in those lines.

- **Unaccounted Wealth:** Wealth can be created in any form. It may be in the form of cash, gold, real estate, foreign currency, illegal business and many more. The wealth which is kept in cash is only reduced but the wealth kept in other forms is untouched and post demonetization the cash form was converted into several other forms. It was eradication of black cash but not black wealth.
- **Cashless mode is less:** Post demonetization many people were forced to go to cashless and use of plastic money was publicized. But the infrastructure of getting cashless was zero.
- **Sluggish Economy:** Demonetization has made people to deposit money into banks. There is an increase in the deposits, and on those deposits the banker is liable to pay the interest. The interest paid on deposits becomes an expense and those deposits cannot be able to distribute as loans to people in the sluggish economy.
- **Banks:** For the Banking sector this decision was a very burdensome as there was no prior preparation so they were not ready for such a blast.

2. Opportunities

- **Financial Inclusion:** Demonetization acts as an overture towards financial inclusion. As this decision has a lot of impact on people who were not in practices of banking system and its products and services.
- **Digital economy:** This decision can make India cashless (i.e.,) Digitalized. Almost all the transactions can be made online through this effect and makes India a step forward towards Digital economy. This digitalization also benefits to curb malpractices.
- **High cost of Future Crimes:** Cash facilitates crime because it is anonymous and big bills are easy to carry. By inflicting a cost, demonetization cripples the ability to engage in future corruption. It is far easier indulging in crime with substantial cash in hand. The costs of crime will become much higher and will have an indirect but powerful impact on future corrupt practices committed with the help of currency.
- **Corruption:** There will be decrease in the corruption of India because people will not be left with enough cash to give corruption and also the takers will afraid of taking corruption because of getting caught.
- **Checks on Loose Sectors:** Black money spawns in an economy in areas where the checks and balances are weak and have larger cash component in their transactions like commodity hoarding and trading, movie production, campaign finance, and of course real estate. Since liquidity dries up, hoarders' and black-marketers' holding power collapses leading to prices collapse. Demonetization will result in a correction in these markets, either by a reduction in prices or a reduction in business. We will see the outcome in time to come. However, these corrections will move the market to equilibrium reflecting genuine demand and supply in the real economy.
- Merchant payment gateways and POS terminal economy boosted immensely.
- Higher visibility of the transactions at individual level to the government.
- More accurate taxation starting this financial year.
- Real-estate business to be more transparent.

3. Threats

- **Punishment:** Demonetization has become a punishment to the people because; they are facing a lot of problems due to scarcity of money in an economy. People are living their daily work to stand for the long queue in front of banks to get very limited money which will not satisfy them completely. If the government does not invest all its energies into replenishing and re-calibrating ATMs, festering inconvenience will lead to backlash and has potential to undo the intended good work. Daily wage earners, truck drivers don't have much time to stand in line every day.
- **Sluggish Business:** The business activities have gone to very lower point as people are falling short of cash to purchase the items which they wanted to have. So, people are postponing all their purchases which has lead to sluggish in the business.
- **Panic and Confusion:** This is the biggest threat. The political discourse is at the lowest. The opposition parties have been quick to fuel and magnify public annoyance over the teething problems. Misinformation and confusion is being propagated on an hourly basis to see to it that somehow this move is unsuccessful. Even majority of the TV channels, instead of being helpful or providing tips to people, are indulging in fear-mongering. OpIndia.com has busted many such rumor mongering.
- Illegal exchange of Demonetized cash.
- Proposals to reintroduce some high value currency may bring back the black money market into business.
- **Confusion:** Several people died of heart attack when they got to know that there hard earned money could not be used anymore. Though the Govt. has been trying to quell confusions, frequent change in policies and notifications by the RBI has infused panic among people.

4. Conclusion

I conclude this paper saying 'no gain without pain'. The Government has tried something different to make the country better place to live in. The decisions may cause a lot of pain but in the future periods it will benefit a lot. The Govt. and RBI are working on it to make life normal as it was earlier.

The Govt. and RBI should take necessary steps to flood the banks and ATMs with cash, eradicating that scarcity. Watchmen, carpenters, maids, shopkeepers, cooks, sweepers, almost all are showing relatively calm, positive and mature understanding of the after effect. The people standing in queues in front of banks and ATMs are taking it very easy and acting boldly towards the decision.

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