

# Demonetisation – An Analysis on Where BSE and Macroeconomic Variables of the Country Stand a Year Later

Benjamin Jones Abraham<sup>1</sup> & Dr. K. Ramamurthi<sup>2</sup>

<sup>1</sup>Research Scholar, Bharathiar University and Assistant Professor, Department of Commerce (PG), Acharya Institute of Graduate Studies, Bangalore

<sup>2</sup>Principal, Coimbatore Institute of Management & Technology, Vellimalaipattinam, Narsipuram, Coimbatore.

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## ABSTRACT

*The Indian stock market and the macroeconomic indicators were showing sign of positive growth since the time Shri. Narendra Modi took over as the Prime Minister of the country. The stock market had almost fully recovered from the shock of the economic recession of 2008, the GDP growth rate was above 7% establishing India's claim as one of the leading economics in the world, the rupee was trending at stable rates and the ease of doing business in India had improved appreciably. However, on the 8<sup>th</sup> of November 2016, in an unprecedented move, the Prime minister of the country withdrew the status of high denomination currency (HCD) of ₹500 and ₹1000 as legal tender. The aforementioned currencies constituted almost 86% of the overall currency in circulation.*

In this paper titled 'Demonetisation – An analysis on where BSE and macroeconomic variables of the country stand a year later', the author tires to understand the over bearing of demonetisation on the Indian economy.

**Key Words:** Demonetization, Interest rates

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## Introduction.

With the note ban announcement of Shri. Narendra Modi, the HDC of ₹500 and ₹1000 denominations that constitute 14 Lakh Crore of the total 16 Lakh crore or approximately 86% of the total money circulation in the economy faced the dark reality of being confined to the pages of history.

What followed next was panic, pandemonium and Paytm,

Panic in the sense that not anyone baring the Prime Minister, Finance Minister and Governor of RBI had a well-rounded picture of what was set to unfold. This meant even his own ministers, party cadres, Central Bank officials, Commercial banks, Planning Commission officials, Commerce ministry and foreign affairs block were in kept in dark.

Panic was right at the doors. Banks were closed for the next 3 days, ATMs hardly had any money to

vend, although new currencies of denomination ₹2000 and ₹500 were introduced into circulation, the demand for it far exceeded the supply, and if even if supply was available the ATMs were not calibrated to dispense the new HDCs. Every private institution from hospitals to retail stores to commutation systems denied anyone who came with old defunct notes. Long queues in front of ATMs for withdrawing the daily allowance of ₹2000 was a regular scene in the first few weeks. Some were lucky to reach the teller machine before the teller emptied, others weren't. Few broke the lines and broke a fight, few fainted, few collapsed never to wake up, few tried self-immolation, a few attained their 15-minute fame by baring themselves, yet a few solaced on the fact that that this was the fight against corruption, counterfeits and money laundering. As realism gradually prevailed over rumours that reigned in social media apps and countryside discussions, a clearer representation of the new economics of India was

revealed, that this is the digital age and financial transactions here on would be in digital form. Mobile payment apps such as Paytm, Freecharge Mobiwik, BHIM and App platforms of nationalised banks were overwhelmed by the herald of new prospects.

Some facts regarding the bank accounts and Internet penetration in India need to be discussed here.

In India only 53% of people have a bank account, however the dormancy rate is high as 43%, and only 15% of adults use their accounts to make and receive payments. There has been surge in opening new accounts. Between 2011 and 2014, 17 Million new accounts were opened, under the framework of the Pradan Mantri Jan Dhan Yojana scheme from 2014 to 2015, 125 Million new accounts were opened.

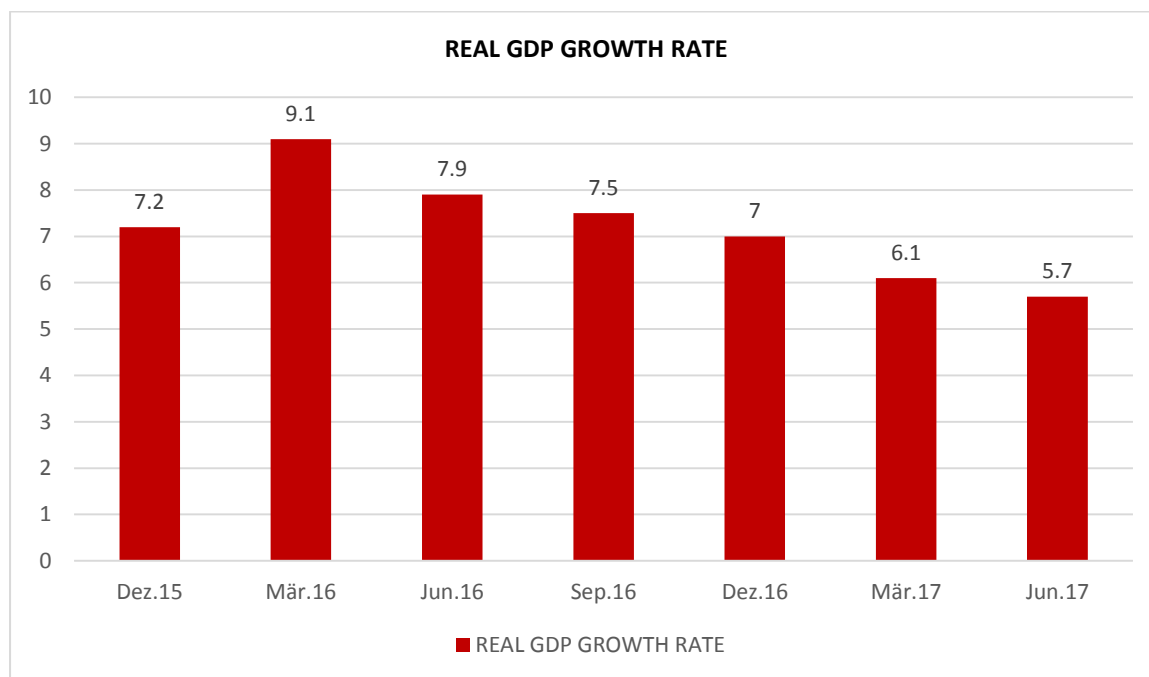
800 Million people or 65% of the country's population which form the basis of the nation's rural economy is cash driven. From buying seeds, fertilizers, tools and making payments, farmers are

cash driven. As of 2013, only 15.1% of the country's population had access to Internet. It has seen growth in the last 3 years, yet, about 950 million people or 78% of the population do not have access to Internet.

The very fact that India being a cash economy ensured that the economic outputs were trading downwards as a result of note ban. A very high percentage of all agricultural payments are made in cash, Almost 53% of Indians do not indulge in active banking transactions, 78 % of India does not have access to Internet, only 7% of India used electronic banking or mobile payment applications.

In spite of all this the SENSEX and NIFTY recorded its highest closing ever. The repo rates were brought down from 6.25 at the beginning of the year to 6.5%.

The GDP growth for the April – June quarter 2017 slipped to 5.7%. The trade deficit this year when compared to the previous year rose from 0.9% to 3.2% of GDP.



**Objective of the Study**

- i. To understand the impact of Demonetisation on the SENSEX
- ii. To understand the impact of Demonetisation on 4 indices of BSE; namely, BSE AUTO, BSE IT, BSE REALTY and BSE BANKEX.

- iii. To draw relationship between Demonetisation and Interest rate
- iv. To draw relationship between Demonetisation and Currency rates

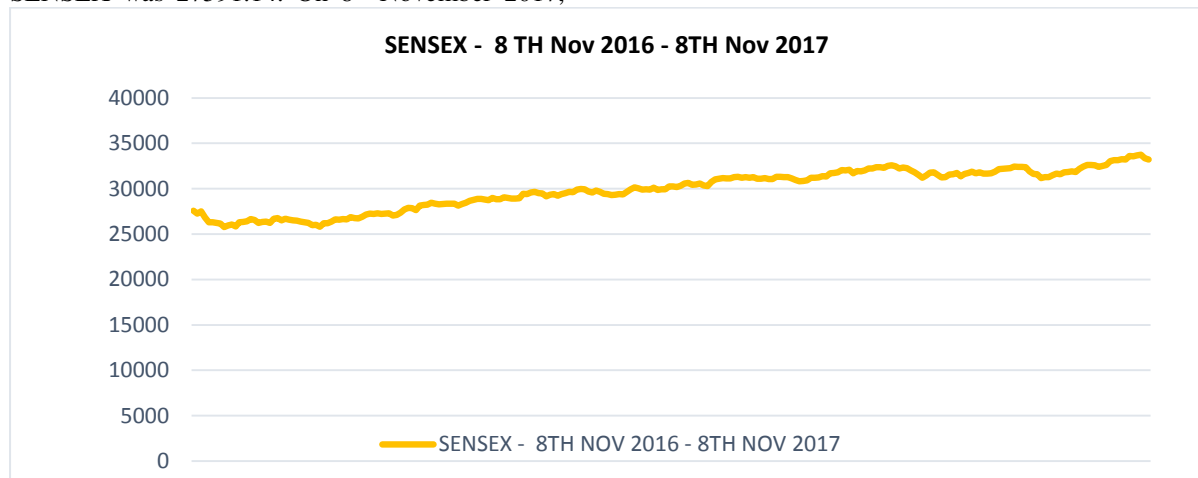
**Demonetisation Impact on the Stock exchange**

The Sensitivity index of Bombay Stock Exchange recorded its higher ever closing points.

On 26<sup>th</sup> April 2017, SENSEX closed above 30,000 points for the first time ever.

the SENSEX closed at 33218.81, YoY growth of 20.39%

On 8<sup>th</sup> November 2016, the closing points of SENSEX was 27591.14. On 8<sup>th</sup> November 2017,



*Graph 1 : Showing the performance of SENSEX from 8<sup>th</sup> Nov 2016 – 8<sup>th</sup> Nov 2017*

**Demonetisation and Sectoral Indices of BSE.**

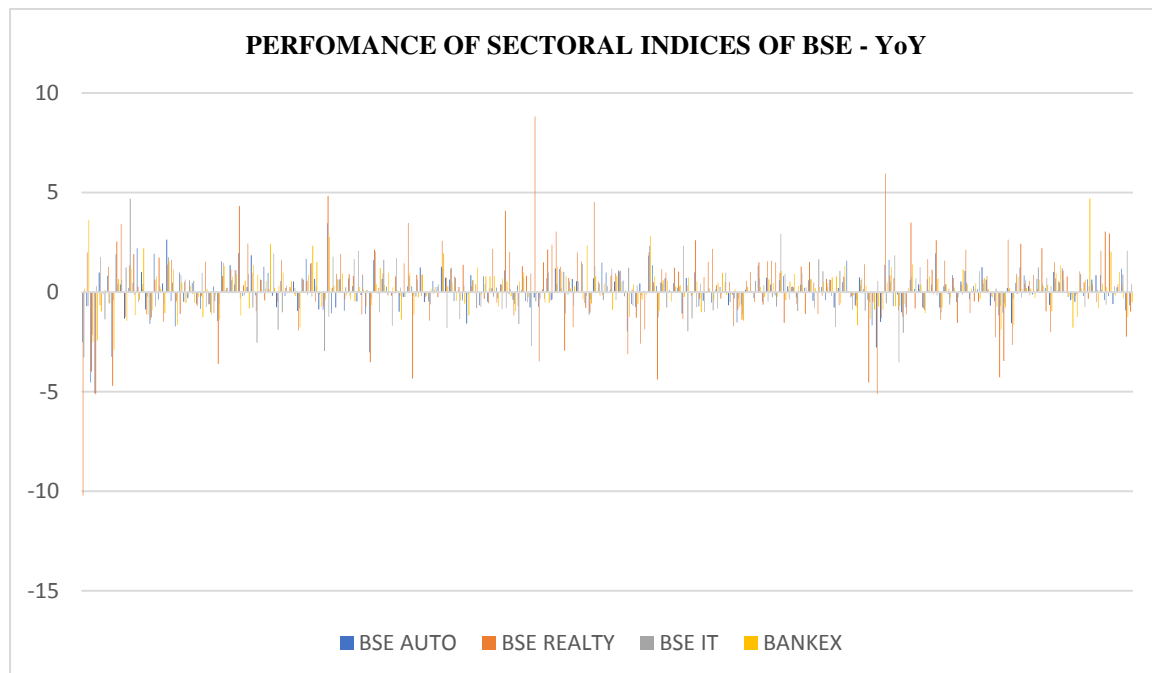
YoY all the sectoral indices of BSE showed upward trend, as shown in the Graph 2.

Demonetisation led to massive deposits in bank accounts. This helped banks to improve liquidity position. Banks reduced their lending rates and the rates for Home loans and personal loans.

The Sectoral indices taken for this study are:

BANKEX, AUTO, REALTY and INFORMATION TECHNOLOGY.

It can be seen that YoY, all the sectors showed impressive growth since Demonetisation, although there are no sufficient data to prove that demonetisation can be credited for it.



*Graph 2: Showing the performance of Sectoral indices BSE*

Indices	BANKEX	IT	AUTO	REALTY
YoY Change (%)	27.52697	8.976254	13.02375	56.38743

*Table 1 : Showing the YoY Performance of Indices of BSE*

**Demonetisation and Repo Rates**

The Repo rates at the time of demonetisation was 6.25%. The rates remained unchanged for the major part of 2017, despite massive call for rate cuts due to high liquidity in banks as a result of

demonetisation. The surging inflation was the reason why the apex bank was reluctant to reduce the repo rate. However, on August 2, 2017, the Central bank reduced the repo rates by 250 basis points to bring it to 6%.

Date	Repo Rate
04th Oct 16	6.25%
07th Dec 16	6.25%
08th Feb 17	6.25%
06th Apr 17	6.25%
08th Jun 17	6.25%
02nd Aug 17	6.00%

*Table 2: Showing the repo rate announcement during the period of study*

**Demonetisation and Exchange Rates**

The India rupee gained against the dollar during the course of the study. On the 8<sup>th</sup> of November 2016,

the USD/ INR rate was 66.246, on the 8<sup>th</sup> November 2017, the USD / INR rates stood at 64.92, an appreciation of 2% against the USD for INR.



**Findings**

- a. Although there was enough speculation on how the demonetisation might negatively affect the Indian economy, SENSEX gained a 20.39% growth in the one year period from the announcement of Demonetisation.
- b. The sectoral indices of SENSEX showed positive movement. BANKEX, the indice of the major ten Banks listed in BSE showed a growth of 27%. This can be attributed to the huge volume of liquidity the banks hold and the potential of lending them in the form of loan. Although the Real estate sector suffered major blows in

- the first month after demonetisation, with depreciating market value of up to 25% , the potential of growth surged the market. The Realty sector, that included the major companies in real estate listed in BSE showed a YoY growth of 56.38 %. The auto sector that relies so much n Bank loans, gained 13% during the period
- c. The mounting liquidity forced the policy makers to revise the Repo rates to 6% from 6.25%.
- d. The period also witnessed appreciation of Indian Rupee by 2% against the dollar.

### Conclusion

It can be concluded that the Interest rates, the currency rates, the SENSEX and the sectoral indices of BSE showed positive movement during the period of 8<sup>th</sup> November 2016 to 8<sup>th</sup> November 2017.

However, there is no solid proof to show that the rise is due to demonetisation.

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