

Demonetization and its Effects in India

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Abstract

Indian government has taken a bold decision on note ban on 08/11/2016. Central government was a judicious, well-thought out and well-implemented step, and whether it would really eradicate all the existing black money. Here I have utilized the opinions of great expert on economics, financial economist and intellectual politicians. This study will help us to know about the positive and negative impact of note ban decision taken by Indian government. This study is purely based on secondary data, which is collected from news papers, magazines, websites from internet, some useful books related to topic etc.

Keywords: - Indian government, note ban, economist, expert, opinion.

I. INTRODUCTION

Demonetization is the act of changing the existing currency in another form. The old units should be retired and replaced by new currency. In other words demonetization means either introducing new notes or coins of the same currency or fully replacing the old currency with new currency. There is an one important thing exist on economics, which is remonetisation, in which forms of payment is restored as legal tender.

There are so many reasons, why governments demonetized their nation's currency. Some reasons are like resisting inflation, resist corruption, and discourage a cash system in the country.

In November 2016, The Indian government has taken a bold step to demonetize the 500 and 1000 Rs (fully ban). Currency notes, these two biggest denominated notes accounted 80% of the currency supply. The government's main objectives of note ban is, to eradicate counterfeit currency, resist tax evasion, destroy the black money, and terrorist financing activities, and to encourage the country towards the cashless economy. This decision taken by government is for welfare of the nation, but so many questions comes in mind that, would note ban decision actually eradicate the black money, if does then at what extent black money will come out. What should be the impact of this decision on Indian economy? Would Indian economy be prosperous or would be poor.

A. Objectives of the study

- 1) To know about actual present outcomes of the note banned decision.
- 2) To know the potential of the note ban decision.
- 3) To estimate the consequences for future of the note ban decision.
- 4) To know the impact of note ban decision on the Indian economy.

II. SCOPE OF THE STUDY

This study will helpful for the citizens of India, Indian government, businessman and the Indian customers. Through this study government will be able to know about the future conditions of the economy. This study will help to the government for policy making to the betterment of the economy. This study will also helpful for the Indian citizen because they would be able to know the present and future condition of the economy and they can take rational decision on their income and expenditure. Any businessman can also take the wise decision so that he will be able to generate more revenue and can earn the profit in the actual market scenario. Finally everybody would be able to know the impact of note banned decision on Indian economy as well as Indian markets.

A. Data Collection

Secondary data has used for the study. Secondary data is collected from library, text books, and journals, articles from news papers and from relevant websites available on internet.

B. Measurement

Based on situation specific scenarios, expert's opinions, and use of internet for information search.

III. THEORETICAL FRAMEWORK

A. Experts and Economists views about demonetization in India.

- 1) **Amartya Sen** (Leading economist; Noble Laureate; recipient of the Bharat Ratna)

According to Indian express, Professor Amartya Sen said that millions of innocent people have deprived from their money and being suffered to get their own money back.

- 2) **Dr. Manmohan Singh** (Former Prime Minister; eminent economist; former RBI governor)

According to Indian express, the former prime minister, RBI governor, and economist Dr. Manmohan Singh said in Rajya Sabha that this demonetization is an organized loot. In his speech he said that, the way the scheme has been implemented will harm the agricultural sector in India, it will also harm the small scale industry and informal sectors of the economy. He also said that India's GDP can falls about 2 percentage point as a result of this note banned policy. Cooperative banks which serves the rural areas are non functional and has been prevented from cash. Former prime minister also said that this note banned policy is a monumental mismanagement.

- 3) **Kaushik Basu** (Leading economist; Senior Vice-President and Chief Economist at The World Bank)

According to Indian express, Mr. .Kaushik Basu said that government of India made policy that any person who deposits money beyond the limit of 250000, have to pay huge penalty. This policy created a new black market, in which large amount of illicit cash broken in to smaller parts and deposited by the members of team; which is a legal way of illegal activity. Mr., Basu said this move is hurting innocent people who has no illegal money but they have built up cash reserve over a long period of time.

- 4) **Arun Shourie** (Former economist at the World Bank; recipient of the Padma Bhushan and Union Minister)

According to Indian express, Mr. Arun Shourie said in an interview with NDTV, that this note banned policy made by present Indian government is not poke on black money, because the owner of black money converted their money into tangible and intangible assets. The persons who have huge black money, they never keep money in cash, they never keep money under the mattress, or in gunny bags. They invested their black money in properties, jewelries, stock markets or in other assets.

- 5) **Arun Jaitley** (Current Finance Minister of India; Senior Advocate, Delhi High Court)

According to Indain Express Mr. Arun Jaitley gives his opinion that the demonetization is good for economy, Indian banks were facing NPA problem since last many years, now banks will have more money to lend for many sectors of the economy.

- 6) **Arvind Virmani** (Leading economist; Former India's representative at IMF; Former Chief Economic Adviser, GOI)

According to arvind virmani demonetization is a useful technique to solve the problem of black money, but he also said that it need the deeper study to check the effectiveness of demonetization. Immediate effects of demonetization is negative impact in retail trade in goods and services. Currency for everyday transaction have to be replace soon.

- 7) **Surjit Bhalla** (Chairman, Oxus Investments, a Delhi-based economic research/advisory firm; Former Professor at Delhi School of Economics; Previously worked at the World Bank)

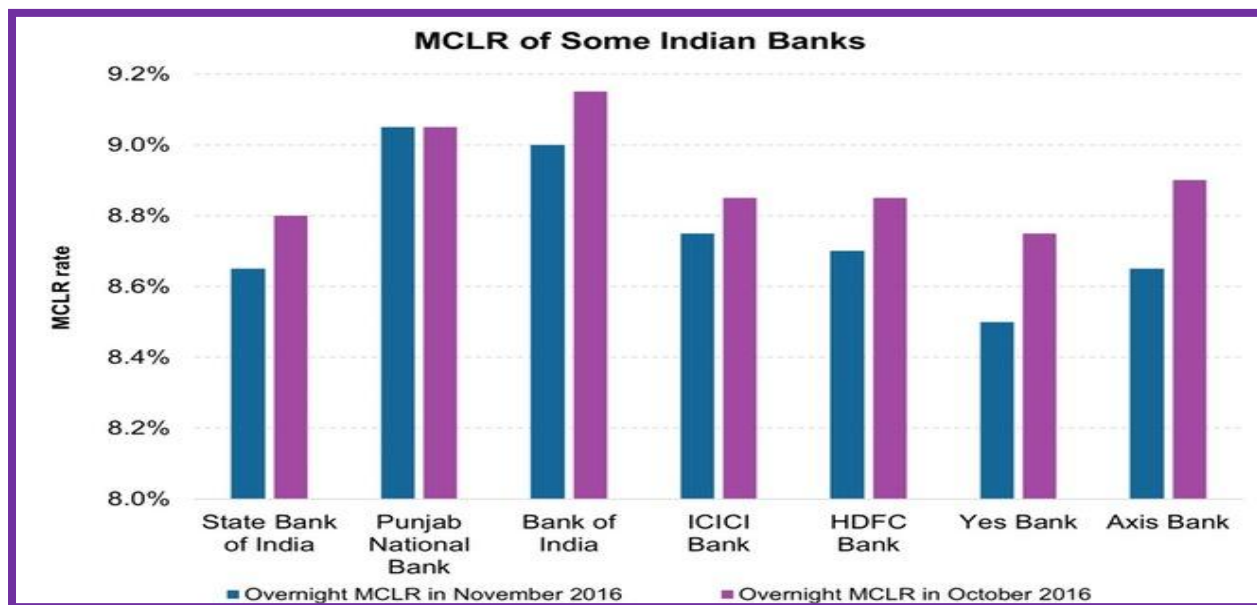
According to Mr. Surjeet Bhalla BJP government take a Courageous step, and the credit goes to our prime minister Mr. Narendra Modi. If this step would be successful then it will be biggest reform in india. This policy will silently create the money for the economy.

IV. SOME OTHER ASPECTS TO KNOW THE EFFECTIVENESS OF DEMONETIZATION

A. *Why India demonetized only 500 and 1000 currency notes*

According to RBI's Report the 500 rupees and 1000 rupees notes approximately 86 % value in the circulation. So government decides to remove this huge amount of money from the market. And the maximum Fake currency notes exist in the form of 500 and 1000.

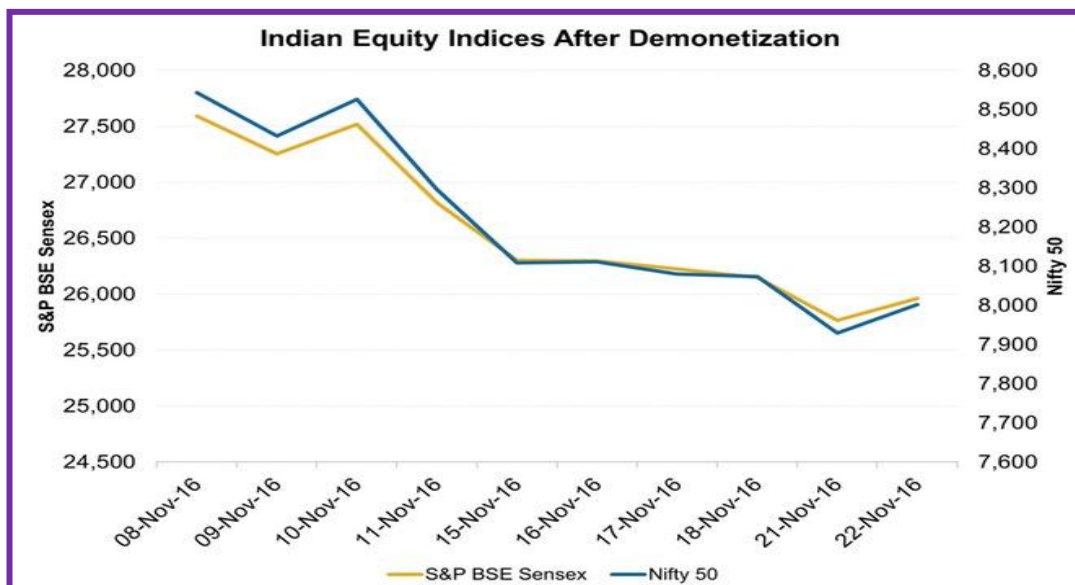
B. *Impact of demonetization on Indian economy rates.*



(Here MCLR means (Marginal Cost of Landing Rates)

C. Impact of demonetization on Indian financial market

After demonetization Indian financial market has been followed just like secular falling trend. Nifty 50 fell approx 6.3% and S&P BSE Sensex Fell 5.9% from 8 November to 22 November.



D. Impact of Demonetization on Next Financial Year

(Hindustan times, 2 feb.2017)

According to pranab sen (India’s First Chief Statistician) said that, the targeted economic growth rates about 7.5% presented by Indian government for upcoming financial year is over optimistic. He said that the decision about ban on currency note has adversely affected the industrial sector. It affected the IT sector which is 45% of the India’s Gross Domestic Product, and approximately 80% of India’s employment depends upon IT sector.

E. Impact of note ban on Auto Assets Backed Loan
(Business standard,13 feb 2017)

According to Moddy’s investor service demonetization has negatively impacted on Indian auto-assets backed loans in the short term and this will continue till the march end.

F. Impact of demonetization on Real estate
(Business standard,12 feb 2017)

During November December 2016, the mostly average housing sales fell about 40% in the top nine cities like Gurgaon, Ahmadabaad,Kolkata, Chennai,

Hydrabaad, Bengaluru, Pune, Mumbai and Noida. Before demonetization the monthly average house sales was 19000 units in July month and 18000 units in October month.

The monthly average sales were reduced drastically during November-December months by 40% and 49% respectively.

The government had announced the demonetization move on November 8, raising hopes of sharp fall in prices in property market, especially secondary or resale segment. Starting of third quarter, October month showing best performance, but November and December both negatively impacted by the demonetisation, 50% of the total sales in the third quarter contributed by October month.

The real estate developers were focusing their efforts to attract customers by offering additional free benefits like jewellery, electronic items, automobiles, holiday package and appliances on the purchase of housing units.

Builders also offered the price guarantee, rental assurance, and buyback schemes to bring confidence in the sector.

G. Impact of Demonetization on FMCG industry

(Economicstimes 24 dec. 2016)

FMCC industry had gone down by 1-1.5% or Rs 3,840 crore in November, compared to October. The purchase in November had gone down by 6.4% compared to October. Purchase of personal care items such as toilet soaps, toothpaste and shampoo had seen the greatest fall by retailers. According to consumer point of view, one out of five housewives had reduced spending by 50% or more. They had cut spends across categories for impulse categories such as biscuits, salty snacks compared to everyday essentials like atta, rice, pulse, sugar.

H. Demonetization Will Help To Fight With Black Money And Reduce Corruption.

(dnaindia 13 dec.2016)

According to Adi Godrej demonetization may have had considerable negative effect at the earlier stage but after some days the situation had improved and it will have a positive impact on the economy. The Chairman of the Godrej group also said that it would help to fight with black money and it will also reduce corruption. He further said there is a fair amount of cash has come into the economy and more is being coming regularly basis, and this is good sign for the economy.

I. Positive effects of demonetization may not be long term.

(Indianexpress, 22 Nov.2016)

According to Fitch Rating the positive effects of demonetization of Rs 500 and 1,000 notes are unlikely to be of long term nature to support banks' credit profile. The rating agency, which rediscovered its negative outlook on the Indian banking sector. The demonetization drive has the potential to raise government revenue and encourage bank lending. The demonetization move could boost government revenue to the extent that helps to move economic activity from the informal to the formal sector.

The positive impact on funding conditions will depend on deposits remaining in banks beyond the next few months, and there is nothing to prevent them being withdrawn again.

V. CONCLUSION

Demonetization in India is a great effort taken by Indian government to combat with black money and corruption. It is a bold decision taken by government. The main purpose of demonetization is eradicating the black money and reduces the corruption. Government of India has become success to some extent. Most of the black money has been crushed. Amount of cash liquidity increased in the bank day by day. And anybody knows if the bank has more deposits then bank become stronger. The country in which bank is strong then that county is more financially strong. In future banks will able to do more and more loans to the individual and to the industrial sectors so that production will grow in our country, employment will be generate, and our country can develop at very fast rate. But this is only future perfections; upcoming few months will show the actual economic condition of our country.

Although Demonetization has create so many hurdles for the citizens of India. Citizens of India faced so many problems due to the demonetization drive; they faced queue problems in the banks and ATM'S for depositing and withdrawing money. Citizens of India faced problem of less consumption of goods due to the lack of cash liquidity. Several businesses disrupted due the lack of liquidity, business owners as well as consumer faced so many problems.

When government took this bold decision about the demonetization in India, government didn't know that Indian citizen will have to face this kind of problem for a long time. But government has given so many remedies to the citizens of India for time to time.

On the other hand, Indian financial market, real estate market, FMCG Sector, Auto assets backed loans etc. all are declined for a short time.

Some economics expert said that positive impact of demonetization will showed in future. Government has also increased the withdrawal limits. The queues in front of banks and ATMs have reduced. Somehow black money also comes out. Now we should wait and watch the overall impact of demonetization drive.

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