

# Effects of Demonetization in India

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## Abstract

*Demonetization is a generation's memorable experienced and it has been one of the economic events of our times. It had a greater significant and immediate impact is effected on every citizen. It refers to withdrawal of a particular form of currency from circulation. It is necessary whenever there is a change of national currency. The old unit of a currency must be removed and substituted with a new currency unit. This is a bold step taken by government for betterment of economy of a country.*

*The Indian government has implemented a drastic change in the economic environment by demonetizing the high value of currency note. It is the act of stripping a currency unit of its status as a legal tender is declared invalid due to change in national currency.*

*According to RBI's (Reserve Bank of India) Annual Report for April 2015 to March 2016, these two notes combined to form 86.4% of the total value of the currency at the end of March 2016, which came to 16.42 trillion Indian rupees. With one stroke, the government removed 86.4% of the currency in circulation by value. In terms of volume, the currency notes of these two denominations formed 24.4% of a total 90.27 billion pieces.*

## I. INTRODUCTION

India is no new to demonetization because it has implemented first currency ban in 1946 and second time currency ban in 1978 and now we are talking about third time currency demonetized in 2016 by prime minister of India – Mr. Narendra Modi has addressed on 8 – November - 2016 and declared that use of all Rs.500 and Rs.1000 note—won't remain legal tender from post midnight and announced the issuance of new Rs.2000 notes. Due to ban of old currency whole country were stunned. This is a bold step taken by government for betterment of economy of a country.

The demonetization that has been in effect since November 9 is expected to have a negative impact on inflation. Consumer spending activity fell to a near halt. Consumers are refraining from making any purchases except essential items from the consumer staples, healthcare, and energy segments. Activity in

the real estate sector, which includes a lot of cash and undocumented transactions, slowed down significantly, Metropolitan and Tier 1 cities reported up to a 30% fall in house prices.

Before demonetization 70% people was not having bank accounts but thereafter mostly everyone have bank accounts and this will leads to digital payment system and transactions with credit and debit cards used. With the recent implementation of demonetization a bold step, by government of India it is a clear message to that entire government sector inclining towards development of Nation for that government is taking constant effort to make India a better place to invest and better place to do business.

## A. Objectives

- To know the effect of demonetization in India.
- To find the effects on GDP and the Indian Economy due to demonetization.
- To know how far does it work for the beneficial of the public?
- To know the problems and prospects of public.

## II. LITERATURE REVIEW

Ansari (1982) examined the impact of real per capita GDP, the size of overseas trade and density of population on the tax revenue by making an inter country comparison. Data was collected for the period 1972 to 1976 from IMF publications, earlier studies and World Bank publications relating to 79 62 countries. The author employed regression analysis on the basis of two equations. In the first equation real per capita GDP and size of trade were taken as independent variables and tax revenue as dependent variable. In the second equation population factor was also included as independent variable to assess the impact of all three factors (GDP, size of overseas trade and density of population) on tax revenue. The study concluded that real gross domestic product and foreign trade were positively correlated with tax revenue, whereas density of population was negatively correlated with tax revenue.

Arpit Guru and Shruti Kahanijow (2010) researcher analyzed the black money income. Need for amendment in DTAA & ITEA and analyzed that black money is spread everywhere in India up to a large extent which continuously stashed towards abroad in a

very large amount. The researcher also identified how black money had caused menaces in our economy and in what ways it is used.

SukantaSarkar (2010) conducted a study on the parallel economy in India: Causes, impacts & government initiatives in which the researcher focused on the existence of causes and impacts of black money in India. According to the study, the main reason behind the generation of black money is the Indian Political System i.e. Indian govt. just focused on making committees rather than to implement It. The study concludes that laws should be implemented properly to control black money in our economy.

Tax Research Team (2016) in their working paper stated in favor of demonetization its main objective is to analyze the impact of demonetization on Indian economy. This paper shows the impact of such a move on the availability of credit, spending and level of activity and government finances.

### III. METHODOLOGY

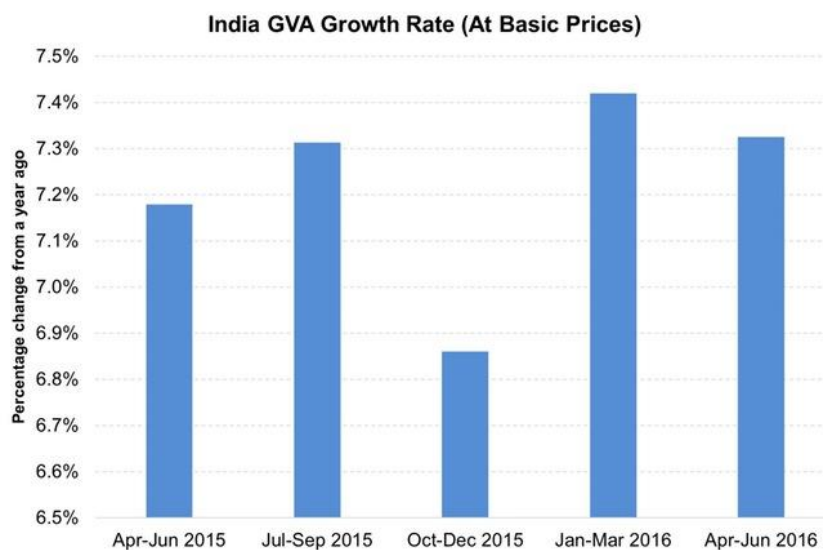
The study is based on secondary sources of data information collected from Different books, Journals, Newspapers and relevant websites in order to make the study more effective. Data is analyzed and put into the points that to clearly know the facts in the means of list. The study attempts to know the effects of demonetization on common man.

### IV. EFFECTS OF DEMONETIZATION

Demonetization is by far the single greatest positive disruptive move made in India. Effects of demonetization are the first major and sustained effect would follow from the extent to which the currency is extinguished. Demonetization is a move that has affected all subjects of the nation for better or worse. There are both the positive and the negative impacts took place in the matter of demonetization. Demonetization effects on rates of daily food products. Here the Food item inflation, measured by changes in the Consumer Food Price Index (CPI), accounts for 47.3% of the overall CPI. Due to 86.4% of the value of the currency notes in circulation going out of the financial system and re-monetization being slow, the supply and demand of food items fell. It will exert more downward pressure on inflation.

#### A. Demonetization Will Hit the Economy

The demonetization of the 500 rupee note and the 1,000 rupee note—the two highest currency denominations available in India—will likely hit the economy hard in the short term. The surprise move is expected to grind the consumption activity in the Indian economy to a virtual halt. The service sector, which dominates economic activity and involves a sizable chunk of cash transactions, will likely be hit the hardest.



Market Realist<sup>®</sup>

Source: Central Statistics Office, India

#### B. Interpretation: India's Economic Growth

Growth in the Indian economy remained solid in the quarter from April to June 2016 (the latest available). In India, a financial year begins in April and ends in March of the following year. The previously mentioned quarter is the first quarter of fiscal 2016–

2017. During that period, the GDP (gross domestic product) rose 7.1%, while the GVA (gross value added) rose 7.3%. The relationship between the GDP and GVA is:

$$\text{GDP} = \text{GVA} + \text{taxes on products} - \text{subsidies on products}$$

The base year for calculating the GVA is 2011–2012. GDP and GVA growth in the quarters from September to December 2016 and January to March 2017 could be significantly lower than previous years. Some bounce back should be seen in the first quarter of fiscal 2017–2018. In the medium term, the Indian economy can grow considerably after curbing the debilitation caused by counterfeit money and an increase in economic activity.

Better, as the benefits are clear and obvious - it drives the nation towards a cashless economy ensuring transparency.

- Removal of Black Money
- Improves inflation outlook and increase India's GDP.
- It will help reduce interest rates and lower income tax rate.
- It will bring more borrowings to the exchequer.
- Mainly the clean-up of illegal cash will help turn around the economy.
- The pulling out of the old big notes will help make the election process clean and transparent in Uttar Pradesh, Punjab, Goa and Uttarakhand.
- Demonetization has crippled the Hawala Rackets which means transferring money without any actual money movement. According to India Today report, one of the Hawala Operators in Mumbai has destroyed currency notes worth about Rs.500/- crores.

Worse, for a transitory period it disrupts the lives of innocent people, making them roam around ATMs/banks and wait in serpentine queue. In some areas there are no certain steps taken for women and senior citizens with that sum of the senior citizens are died due to sun-stroke and illness affect in thirsty ques.

Some of the clear-cut effects which can be observed in the process of demonetization are listed as under:

- With the single master stroke of demonetization, all the black money has either came into account or has destroyed.
- Over government finances, this has raised the income tax collection.
- Black money has converted into white money.
- People stood in queues to withdraw hard-earned money.
- Normal life has been impacted very much because of demonetization.

- Low income people have mostly effected as their payments are delayed.
- Some people may commit suicide.
- Big blow to gambling.
- Fiscal deficit come down as housing prices will come down.
- Real estate market went down for certain period and dealers bare the loss due to the effects of demonetization.

## V. FINDINGS

- It is seen that crores of black money have recovered by the banks and many of the black currency notes are burned or destroyed.
- Bank's currency liquidity increased and bankers are started giving services of online banking to their customers. However, bankers are providing those services there before but now it is availing the customer to use of those services.
- However, there is risk of online payment, as the criminal fraudulent are ready to block the payments or hack the payments gateway, passwords of the users and OTPs etc.
- Many of the marketers came into existence in order to reduce the online risk by providing of secure payment gateways and this practice also started by banks to make the online banking safer and easier.
- It is found that most of the bank account holders are now habituated to online banking and other online facilities given by the bank in order to help in making the cashless society.
- Many online payments Applications (Apps) are came into existence to ease the cashless society.
- A fall in discretionary consumption will hurt companies operating in this space. However, a rise in tax flow and lower interest rates, are expected to help the Indian economy grow stronger.

## VI. CONCLUSION

This time demonetization is the highest denomination note undertaken by the government is a big shock for Indian citizens. The impact of the shock is a function how much of the currency will be replaced till the end. The demonetization is taken for several measures such as removing black money from public; it stops corruptions and fake currency. It cannot solve all the problems of India as the government expected. However it is unfair to expect because it is a first step to cashless society which is good for country. The step that the government had taken is right which is going to give a positive impact on economy or country not in immediate way but definitely it will support the Indian economy.

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