Indian Economy: Demonetization and its Effect

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\textbf{Abstract}

The cleanness in Indian economy is the demonetization of currency notes of Rs.500 and Rs.1000 to detect the black money and to curb corruption and terror financing as well. The demonetization has a major impact on curbing black money even though it may not curb black money and the boldest reform by Prime Minister Shri Narendra Damodardas Modi after becoming prime minister. In the world's largest democracy, the demonetization was revolutionary: it called into question the state's promise to "pay the bearer" the face value on every banknote. One can expect a great improvement in the national deficit and a largely clean business environment in the long term.

\textit{Keywords:} Demonetization, Black Money.

\textbf{INTRODUCTION}

India is candle of human race, the birthplace of human speech the mother of history, the grandmother of legends & the great grandmother of tradition. The world is looking to India not just to solve its problems but to address global challenges through innovation. When a currency note of a particular denomination ceases to be a legal tender, it is termed as Demonetization. It occurs whenever there is a change of national currency. Demonetization of Rs.500 and Rs.1000 banknotes of
Mahatma Gandhi series was a policy enacted by the government of India on November 8th 2016.

1. Study the demonetization policy of Indian economy.
2. How far does it work for the benefit of public?

OBJECTIVE OF DEMONETIZATION

The objective of demonetization as claimed by Government of India was to curtail the black money running as shadow economy. Sudden nature of the announcement—and the prolonged cash shortages in the weeks that followed—created significant disruption throughout the economy, threatening economic output. The demonetization move was heavily criticized as poorly planned.

- **Black Money:** A recent study had pegged India’s black market economy at over Rs 30 lakh crore or about 20% of total GDP. This is even bigger than the GDP Of countries like Thailand And Argentina. So now after this Decision black money holders are left with just two options – either route this money through banks, declaring it to be their income or burn the stashed file.

- **Terrorism and Fake Currency:** Terrorism is a frightening thing. But have you ever thought about how these terrorists get their money? Enemies from across the border have run their operations using fake currency notes.

- **Economy:** The Major impact of this decisions on the Indian economy because it gives highly positive impact on the economic Stability in near future. The coming six to seven months are expected to witness a considerable level of deflation. Sectors like real estate, construction material, Gold, unorganized trade and services will see significant pain in the near time.

- **Election:** We all know how much black money is used by political parties. It will be a very tough task to use trucks of money at least for the upcoming elections. Now in upcoming election in April 2019 neither of the parties can purchase the vote of poor people and Some drastic change in the elections going to be seen by everyone.
• **Unorganized Trading:-**
  1. Prices hike in Real estate sectors is mainly because of the involvement of black money, but after taking this decision the prices of property will surely come down to their real value.
  2. Unorganized dealing in share market will also be eliminated after this decision and this will gain positive result in the economic condition of the country.
  3. The problem of inflation will get solved with this step as the government will get more money in its pocket in form of taxes and undisclosed income.
  4. Banking system will also get strengthened as banks will be flooded with huge amount of money. This will also result in more economic development in the nation as the money will be channelized properly through banks.

• **Less Cash/ Cash-Less Economy:** -It is not possible to make India Cash-Less economy, but for the development and making transparency in the economy we can say use of less Cash is possible. So for making people familiar with E-Payment and use of plastic currency

**RESEARCH METHODOLOGY**

For this paper, secondary data has been used. Data has been collected from various research papers, magazines, newspaper, digital media, RBI official website, articles and published and un-published sources of information. The announcement was sudden, unpredicted as well as unscheduled. It was a live television address at 8 PM on November 8th, 2016. After demonetization, the country faced severe cash shortages with severe detrimental effects across the economy. People seeking to exchange their bank notes had to stand in lengthy queues, and several deaths were linked to the inconveniences caused due to the rush to exchange cash.

**LITERATURE REVIEW**

Various newspaper, articles and publications have come up with regard to demonetization. Some of the key findings are highlighted to get an
overall idea on demonetization. People have supported it right from vendors to big retail shop have started accepting credit cards, paytm barcodes are seen in shops which proves people are accepting the change.

**POSITIVE EFFECTS OF DEMONETIZATION**

1.) Higher tax collection  
2.) Speed breaker for corruption  
3.) Elimination of counterfeit currency  
4.) Deflation  
5.) Enhance the liquidity position of the banks  
6.) Real estate price cut

**Impact of Demonetization on agriculture as well as Business Sector:**

(A) **Demonetization on Agriculture Sector:** - Agricultural growth in India contracted about 0.2% in 2014-15 and grew no more than about 1.2% in 2015-16, largely because of back-to-back droughts. It was expected to grow at around 4% in this year as per CRISIL Report (Credit Rating Information Services of India Limited), but due to Demonetization this forecast is proven wrong because Farmers are running out of Cash to buy Seeds, Fertilizer, Equipments, and Wages payment to workers and Commission to Agents etc. Because of Cash shortage daily supply transport system has also suffered which was result in 25 to 50% reduction in sales. Following is the main reasons;

I. Farmers are not educated and aware about how to work on E-Payment System, Recent study by RBI Says almost around 78% of farmers are not very much aware of cashless transaction.

II. In most of the Villages Proper Banking system is not Developed yet and Villagers are need to go to the cities for the same because of that Farmer’s most of the time is engaged in exchanging the old notes in Banks.

(B) **Demonetization on Business sector:** - As per the study IPP says Growth in Business sector 0.7% in October 2016 but after 8th Nov. 2016.
Demonetization shows a different picture because of this decision labour turnover is also increased as lack of Production because of law demand of products people were purchase only if it necessarily required, for this I have studied on following business sector

I. **Textile industry:** - Most of the Brands and Retailers Report 40 to 60 % drop in sales after Demonetization in first few weeks but from December Onwards this drop is slightly decrease, but still we can say the impact of this decision has affect the industry in 2017 also for at least 3 to 4 months.

II. **Real Estate:** - Demonetization smashed the real estate market and it will result in 50% drop down and it will remain for further 5 to 6 months. While the short-term impact is negative, Experts hoping that rate cuts in the coming months would boost home sales.

III. **FMCG Products:** - Consumer expenditures also affected by that decision now only those products are purchased which was necessary for daily consumption and mostly the small traders like kirana store, small bodies etc. they all have done their daily transactions only in cash and because consumer has less cash in his pockets the daily sells of these traders drop down by 20 to 30 %. It is also a short term impact in future things get normal.

C.) **Impact of Demonetization on Service Sector:** - Service sector is hit very heard by Demonetization decision in November 2016 worst Slump in nearly three year is Noted.

**CRITICISM**

As said by Prof. Raghuram Rajan Global leadership expert Change is hard at first, messy at middle and gorgeous at the end. The biggest criticism that is faced is the way it was implemented as it has caused a lot of inconvenience to the common man. With due preparation, demonetization could have been a good policy with some positive effects. Though demonetization is not an end in itself, rather it's conduit for India to become a less cash economy at first and cashless economy later. Act such as prevention of corruption act, Disclosure of income tax
act, Prohibition of Benami transaction amendment act should implemented in more regulated manner to curb this giant of society.

**RURAL ECONOMY**

The rural economy being about 68 percent of the employment and 50 percent of GDP is the most important segment. The demonetization has caused significant distortions as farmers are unable to sell their goods and the farmers prefer to receive in cash. The banking penetration in rural India is quite low and the farmers live miles away from their nearest bank branch and number of ATMs in the rural regions are negligible, but this historic move has a potential of bringing about transformational changes in the sector like better access to credit for farmers, elimination of middlemen, direct transfer of subsidies to farmers and ultimately linking the Indian farmer to the global agricultural market. If the government and industry come together to help farmers this will be a thumping success for the farming sector. The government and industry must come together to help farmers and make this initiative a thumping success for the farm sector. In response to the demonetization operation, many analysts have revised their growth expectations for the fiscal 2016/2017 (April 2016-March 2017).

### TABLE A

<table>
<thead>
<tr>
<th></th>
<th>Original 2017</th>
<th>Revised 2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserve Bank of India</td>
<td>7.6%</td>
<td>7.1%</td>
<td>-</td>
</tr>
<tr>
<td>World Bank</td>
<td>7.6%</td>
<td>7.0%</td>
<td>7.6%</td>
</tr>
<tr>
<td>IMF</td>
<td>7.6%</td>
<td>6.6%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Rabobank</td>
<td>7.0%</td>
<td>5.5%</td>
<td>8.2%</td>
</tr>
</tbody>
</table>

The pick-up in growth later this year is due to important reforms that our prime minister has been able to implement, such as the Goods and Service Tax (GST), which brings uniformity in India’s complicated and inefficient tax scheme and reduces the cascading effect in the old system. The implementation of GST will result in lower prices of goods and services, as well higher investment and tax revenues.
FINDINGS

1. Most of the bank account holders are now habituate to online banking and other online facilities to help India become a cashless society.
2. Currency liquidity of the banks is increased.
3. Though online banking services were provided by banks earlier, majority of bank customers are using those services now.
4. The government added 9.1 million new taxpayers in 2016-17, an 80% increase over the typical yearly rise, highlighting the impact of India’s November demonetisation of high-value currencies.
5. The long-term benefits of demonetization on GDP growth will outweigh the short-term transitional impacts of demonetization.

RBI DATA ON DEMONETIZATION
Demonetization, which was done to crack down on black money, significantly affected India's GDP growth, but with almost all of the money now being accounted for there are doubts if the government's action was effective. Demonetization’s long-term impact on the Indian economy is still debated. RBI data states that out of Rs 15.44 lakh crore worth of currency notes that were taken out of circulation, Rs 15.28 lakh crore have returned to the system and around Rs 16,000 crore is yet to be deposited back to banks. RBI report also says that about 8.9 crore units of the demonetized Rs 1,000 notes worth Rs 8,900 crore, had not come back into the system. There were 632.6 crore pieces of Rs 1,000 currency notes in circulation on the day of demonetization. This reveals that just about 1.3% of Rs 1000 notes did not return after demonetization.
However, the benefits of demonetization cannot be seen immediately but definitely can see over the long term. The web services in local languages and train the population in popularizing on the digital world to be undertaken to go for cashless transactions. The step that is taken is right which is giving a positive impact on Indian economy though not immediately but will definitely support the Indian economy and demonetization of higher denomination notes is a good move backed with noble intent but with poor execution. Government would have given alternatives for common people to avoid inconvenience but definitely going to strengthen India’s economy. This move has led to improved tax compliance, better fiscal balance, lower inflation, lower corruption, less elimination of fake currency and another stepping stone for sustained economic growth in the longer term. This move will stop the flow of fake cash a definitive target is to make India a cashless society, it is a step towards making India a computerized. Demonetization in India has worked in the many ways. India’s demonetization process has tackled the country’s problem of counterfeit notes. The process of demonetization in India has not been without its challenges. It has, however, had both positive and negative impacts in the short-term. It remains to be seen if the positive impacts will be long lasting. In the long run, there will be more formalization of the economy due to demonetization,

CONCLUSION

Even though about 98.7% of the scrapped notes have come back into the system after demonetization, Prime Minister Sri Narendra Modi Ji has succeeded in driving home the point that the government is serious about tackling black money and tax evasion with the help of information about the depositors. Along with the goods and services tax (GST) and E-way bill system the urgency that the government machinery is now showing in curbing cash transactions and the creation of black money will undoubtedly prove to be a potent weapon in cleansing the economy.

1. Prime Minister Modi has also signaled that the demonetization was a first step against corruption and tax evasion, and property records will be digitalized as well. These digital records are used to identify
individuals who have been registering assets under other peoples’ names in order to avoid taxes. The property digitalization operation will put additional stress on the real estate sector.

2. International response to this move is positive.

3. With this move, owners of informal organisations are more likely to register their organizations to transform them into formal organisations. Thereby tax revenue for governments will be increased.

4. Chhattisgarh is the first state to pass notion supporting the demonetization move.

5. It will cut the supply of black money circulating the economy and bring some of it into the formal economy over time

6. The government can see tax gains if it succeeds in unearthing unaccountable money from the shadow economy

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