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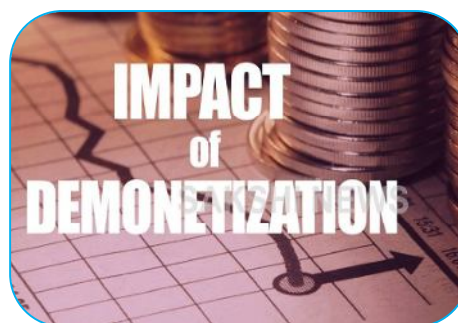
IMPACT OF DEMONETISATION ON INDIAN ECONOMY

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ABSTRACT

Demonetization means to withdrawal of a particular form of currency from circulation. Demonetization can lead to elimination of fake currency, it can be said that this is a historical step by the Modi Government and should be supported by all. This decision of Government will definitely fetch results in the long term this is the stepping stone towards/ for sustained economic growth in the long run. The main objectives for demonetization was to restrain corruption, to curb the use of high denomination notes for terrorist activities, destroy fake currency and making black money to flow into the main stream of the economy by declaring their income to the tax authorities.

This research paper discusses general effects of demonetization on Indian economy.



KEYWORDS: *Demonetization, fake currency, black money, Indian economy.*

INTRODUCTION

Prime Minister Narendra Modi banned the Currency notes of Rs.500 and Rs. 1000 with effect from 8th Nov. 2016 Tuesday Midnight. It is a strict order of banning regular 500- and 1000-rupee notes from circulation which is a result of finding black money. Within 3 days of that striking decision: - 35000 Core Rs. Deposited in banks and approximate 1500 Core Rs Black Money were destroyed. According to the RBI 's (Reserve Bank of India) Annual Report for April 2015 to March 2016, the worth of the currency notes at the

extremity of March 2016 was 16.42 trillion Indian rupees. The 500 rupee and 1,000-rupee currency notes composed 86.4% of the cost. In one stroke, the government removed 86.4% of the currency in circulation by value. The RBI issued Two thousand rupee notes and new notes of Five hundred rupees which will be placed in circulation from 10th November 2016. Notes of one hundred, fifty, twenty, ten, five, two and one rupee coins will remain same and will remain unaffected by this decision. This measure has been taken by the PM in an attempt to resolve against corruption, black money and counterfeit notes. This move

is expected to discard black money from the economy. For the process of demonetization to be successful, proper management system is required. It will help the economy in various ways like, improve economic growth, achieve a stable inflation rate and change the financial holdings of the citizens. Without a proper management system the result of demonetization can be catastrophic.

OBJECTIVES OF THE STUDY :

This paper seeks to study the impact of demonetization on Indian economy. This paper also tries to analyze the success rate of demonetization.

REVIEW OF LITERATURE

(Manohar choudhary Associates) National Institute of Public Finance and Policy-The researcher has focused on impact of different sectors like Real estate, agriculture, automobiles, infrastructure, hospitality, banking etc., Researcher has also analysed whether there is positive impact, negative impact or neutral in different sectors.

In (Dec 2016, Dr. Partap Singh .) this Paper Researcher Highlights the probable consequences of decisions on various economic variables and entities. The study was made to experience the impact of Demonetization in various countries in past years and to analyse immediate impact of Demonetization on Indian Economy.

According to Kushwaha, Kumar and Abbas (2018), demonetization was an effort to handle the threat of illegal money, corruption, terror funding, and counterfeit currency. This action was considered as a surgical strike against the undeclared money in the history of Indian economy. Demonetization caused severe cash shortages with harmful effects on various small business, agriculture and transportation. The positive impact of demonetization is it encouraged digital mode of payment like e-wallets and apps, online transactions using e banking, usage of plastic money etc. The benefits of demonetization will be seen in the medium and long term.

RESEARCH METHODOLOGY

The study is descriptive in nature. It uses descriptive method of analysis based on genuine secondary data taken from government reports, online journals, research papers, newspapers etc. The data collected on various aspects of demonetization are mostly in the textual and tabular form. Each point has been explained separately to get a clear analysis of the work done.

SCOPE OF RESEARCH

Demonetization is one of the biggest and the most critical steps taken by any ruling governments of India ever to recover black money. The research has been conducted to understand the actual effect of the demonetization through which one will be able to know the overall effect on people and economy of the India.

➤ IMPACT OF DEMONETIZATION ON INDIAN ECONOMY:

1) Effect on Black Money

The removal of these 500 and 1000 notes and replacement of the same with new 500 and 2000 Rupee Notes is expected to remove black money from the economy as they will be blocked since the owners will not be in a position to deposit the same in the banks, curb the funding for anti-social elements like smuggling, terrorism, espionage, etc. According to RBI report, out of Rs. 15.41 lakh crore of demonetization currency notes of Rs. 500 and Rs. 1,000, Rs. 10,720 crore was not returned to the banks or the RBI, i.e., only 0.7 per cent of the demonetized currency notes were junked in the process.

2) Effect on Gross Domestic Product:

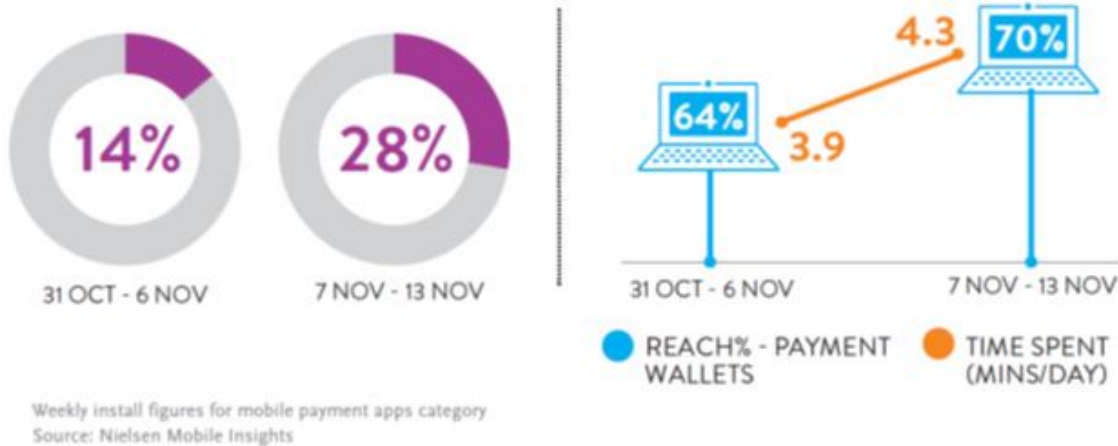
GDP become down because circulation of currency is less because of cash crunch in the country Demonetization will have a "very significant adverse effect" on the country's GDP. It has been highly critical of demonetization decision and has predicted a 2% drop in the country's GDP due to it.

3) Effect on food sector:

Foods witnessed the highest increase in growth during the demonetization week at 19% vs. year-ago. Within the food basket, packaged grocery and cooking medium saw a big upswing. Tea, packaged Atta and rice, baby food, milk food and non-refined oil also contributed to the growth. Impulse categories (biscuits, chocolates, salty snacks and confectionery) also grew, but at a much slower pace. Soft drinks' slowed down significantly; however, the onset of winter could also be contributing to this slowdown.

4. Effect on Digital payment :

Roughly 1.2 crore more Indians started using digital wallets in a single week. The reach of mobile payments increased by 6 % in the week of the announcement as compared to the previous week, to peak at the highest ever reach of 70%. Usage frequency also surged by 15%.



In just over one year, a single e-wallet company PayTM has added 1 million merchant registrations which in turn is equivalent to POS for cards. Considering the market share of 39% for PayTm we could deduce the total number of merchant registration with all the e-wallet companies put together to the tune of 2.5 million. Demonetization thus helped the country to take a step forward towards cashless economy. This will help to solve the economic and security problems usually associated with cash.

5. Eimination of counterfeit currency :

By demonetizing the highest currency notes India could almost eliminate 100% fake currency out of circulation in one stroke. A data from IndiaSpend reports that the only 6 out of every 250 fake currency is reported. It is estimated that fake currency that would have been eliminated would be Rs 1.2 trillion. Adding it up with anticipated 3.6 trillion black money, the total counterfeit and black money that would have been eliminated would be Rs 4.7 trillion.

6. Taxes :

According to Crisil, India witnessed an increased growth from 8.2 per cent in FY16 to 26.8 per cent in FY17 and 21.0 per cent in FY18. The corporate tax also increased in the corresponding years from 5.7 per cent to 7.0 per cent to 16.3 per cent respectively (Financial Express, May 29, 2018). An increase in the number of new tax filers has also been recorded due to demonetization.

7. Effect on Comman man :

The informal sector of the economy, like daily wage earners, laborers, small traders etc. use cash frequently. These sections lost their income at the time of liquidity crunch. In a series of tweets by former Finance Minister P Chidambaram said that 100 lives were lost and 15 crore daily wage earners lost their livelihood for several weeks. Many Small and Medium Sized Enterprises (SMEs) were shut down and many jobs were destroyed (India Today, August 30, 2018).

8. Impact on Purchasing Power:

The move of demonetization has affected the purchasing power. This is mainly affect those assets that are used as long term investments like Real Estate, Vehicles and core sectors of cement and steel. The stock prices of the companies of these sectors will have a negative impact. Purchasing power of consumer is also affected due to the shortage of cash because 90% transactions taking place in cash in the Indian economy.

9. Decrease in Demand

This is a fact that black economy do support the real economy from demand side, that is to say black money used by the consumers to buy goods or services increases demand for those. Although you may say this is unethical or wrong but it is beneficial from economy's point of view.

10. Effect on Farmers :

The demonetization has been introduced during the Rabi sowing season, which would severely impede the farmers ability to buy seeds and plant hence affected the food production. The Union agriculture ministry has admitted in a report that the note ban badly affected the farmers. In a meeting of the Standing Committee of the Ministry of Finance, the Ministry of Agriculture acknowledged that due to the lack of cash, millions of farmers were unable to purchase seeds and fertilisers ahead of the rabi season. The ministry said that due to the shortage of cash, about 1.38 lakh quintals of wheat seeds of the national seed corporation were not sold.

11. Effect on Employment :

According to an analysis by Bengaluru-based Azim Premji University researchers, five million men lost their jobs between 2016 and 2018. The beginning of the decline in unemployment coincided with Prime Minister Narendra Modi's demometization of high-value currency notes on November 8, 2016.

CONCLUSION

Demonetization can lead to elimination of fake currency and corruption, it can be said that this is a historical step by the Modi Government and should be supported by all. This decision of Government will definitely fetch results in the long term this is the stepping stone towards/ for sustained economic growth in long run. Demonetization was definitely a step towards cashless economy, which will make our lives more convenient and secure. Other strong and effective policies should be implemented to achieve the targets of the government. The short-term impact of demonetization was bad for the economy of India with fall in GDP and consumer demand and most importantly, the sufferings of the common man.

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