



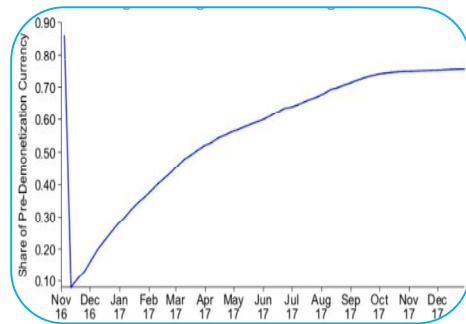
## THE STUDY OF THE MACRO-ECONOMIC IMPACT OF DEMONETISATION ON THE INDIAN ECONOMY

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### ABSTRACT:

*Demonetization is an economic activity in which the government eliminates the old currency and introduces the new currency. Those who have black money, are not able to muster the courage to take new currency in exchange for it, and the black money itself gets destroyed. It has been used by the Prime Minister of India Narendra Modi on 8 November 2016. From this day the old 500- and 1000-rupees currency were discontinued and new currencies were introduced. The first currency was demonetized in 1978 by the fourth Prime Minister of India, Morarji Desai, in which 1000 and 5000 notes were discontinued. However, he has the support of the current RBI governor Urjit Patel. Urjit Patel has described PM Modi's decision as a "very bold step". However, former RBI governor Raghuram Rajan does not consider demonetization to be very effective in bringing out black money. Several other experts have also questioned the move. According to Professor Abhirup Sarkar of the Indian Statistical Institute, Kolkata, most black money holders keep their money in foreign banks, so nothing will spoil the big fish more than demonetization in the country. This research paper has been written to study of the macro-economic impact of demonetisation on the Indian economy.*



**KEY WORDS:** *Demonetization, Black Money, Macro-Economic Impact, Old Currency, Indian Economy.*

### OBJECTIVE OF RESEARCH:

- 1) To study the relationship between black money and demonetization.
- 2) To know the role of demonetization in curbing black money.
- 3) To study the macroeconomic impact of demonetization on the Indian economy.

### INTRODUCTION:

When the government of a country legally closes an old currency, it is called demonetization. After demonetization, that currency has no value. No trading can be done with it. The government fixes the deadline for replacing the demonetized notes in banks to take new notes. During that time, those who did not exchange or deposit their notes in the banks, their notes remain as a piece of paper. The government demonetizes the old notes by replacing the old notes with new ones. Demonetization of large amounts of notes is also done to eliminate hoarding of currency (black money). There is also a large-scale cash transaction in criminal acts like terrorism, crime, and smuggling. Many times, fake notes also come into circulation in the market. The government exchanges old notes to get rid of fake

notes. To avoid counterfeiting, even after bringing more secure notes made with new technology, the government demonetizes the old notes. Governments also sometimes take the path of demonetization to discourage cash transactions for tax evasion.

500, 1000, and 10,000 notes were demonetized for the first time in India in 1946. The Reserve Bank of India, formed in 1938, has not yet issued notes above Rs 10,000. In the 1970s, the Wanchu Committee on Direct Tax Investigation suggested demonetization to bring out and eliminate black money. But due to this suggestion becoming public, the black money holders immediately siphoned off their money here and there. After the lifting of the Emergency in 1977, elections were held and the Janata Party government was formed at the center under the leadership of Morarji Desai. In January 1978, the Morarji government made a law banning 10,000, 5000, and 1000 notes. The then RBI governor IG Patel did not agree with this move of the government. According to Patel, instead of eliminating black money, this decision has been taken to cripple the previous corrupt governments. Till now, a note has been completely closed in India only twice, but many times it gradually closes the old note and issues new notes of the same value in its place. For example, in the year 2005, the Congress-led government of Manmohan Singh demonetized the pre-2005 notes of 500. The year of issue was not written on the back of 500 notes printed before 2005. The government closed the old notes to eliminate the hoarding of fake 500 notes and notes running in the market. Banks were given the facility to exchange old 500 notes with new notes. According to RBI, notes worth Rs 16.42 lakh crore were in the market in India as of March 31, 2016, out of which about Rs 14.18 lakh crore were in the form of Rs 1000 and Rs 500 notes. According to the RBI report, only about 24 percent of the total 9026 crore notes present in the country till then (about Rs 2203 crore) were in circulation.

On 8 November 2016, the Government of India announced the demonetization of the largest currency notes (Rs 500 and Rs 1000). That is, from that day these notes lost the status of legal currency. Thus, in one stroke, the government demonetized about 86 percent of the currency in circulation. Demonetization had four basic objectives: (i) eliminating the black economy (by eliminating hoarding of money collected in black income); (ii) prohibiting the use of high denomination notes by terrorists and smugglers; (iii) Prohibition of counterfeit notes, and (iv) Control of corruption activities. Demonetization is considered to be the best of all financial reforms in India so far, which has had a positive and negative impact in a very short time. A private survey conducted by Prime Minister Narendra Modi has also revealed that more than 90 percent of the people are very happy with this decision. And this is the beauty of democracy, where citizens are nation-building and nation-building. Participate automatically in policy making.

### **The Macro-Economic Impact of Demonetisation on the Indian Economy:**

Public opinion is divided on the government's decision to demonetize, with some believing that the government's move has helped in reducing black money, increased tax compliance, and promoted transparency in the economy. On the other hand, critics are of the view that demonetization has deeply affected the Indian economy and caused hardship to most of the small business dependent on cash. Black money is considered cancer for any economy. It is a parallel economy that weakens the foundation of any country. It is estimated that there is black money worth Rs 3 lakh crore in India. If we see that there is only Rs 17 lakh crore in total operations, then this amount of black money is huge. About 86 percent of the notes in circulation in India are 500 and 1000 rupees. K are currency notes and the demonetization of these notes forced people to deposit their money (500- and 1000-rupee notes) in the bank. RBI announced that till November 18, Rs 5.12 trillion (one crore trillion) in banks. Returns. It was estimated that this money can increase the pace of Indian GDP by 0.5 to 1.5 percent. State Bank of India, India's largest public sector bank, said it has to pay Rs 1.27 trillion. A cash deposit of value has been received.

According to ISI (Indian Statistical Institute), India always has Rs 400 crore. The circulation of counterfeit notes continues. It has also been estimated that every year about Rs 70 crore in India. Fake notes are sent. It is often said that the real estate industry runs on black money. Black money is used on a large scale in this area. Due to demonetization, the use of black money in the real estate sector was

curbed to some extent. Demonetization has badly affected the hawala racket. Hawala is a method of transfer of money without the actual transaction of money. According to intelligence reports, the hawala route is mainly used for money laundering and giving money to terrorists. The work of hawala has come to a standstill due to the sudden withdrawal of black money from the market.

With this large base of cash deposits, banks will be able to reduce lending rates as higher deposits will replace the higher cost of borrowing and reduce the overall cost of funds. If demonetization has shown its impact first, it is in the Kashmir Valley. The ongoing unrest in Kashmir has subsided due to the shortfall in the money supply. According to an intelligence report, the separatists get Rs 1,000 crore from Pakistan every year for spreading unrest in Kashmir. This money is sent through hawala. Demonetization has brought the hawala business to a complete standstill. As a result, the separatists were left with no choice. The syndicate of Indian currency, working both inside and outside the country, has suffered a tremendous setback due to demonetization.

Demonetization has also brought peace among stone pelters in the Kashmir Valley. Since the funding of the separatists has suffered a serious setback due to demonetization, they are unable to invite the youth of the state against the army or the state government. Unaccounted money will make its way into the formal channel. This will increase income tax collection. The influx of cash into banks is enabling banks to extend subsidized loans and other facilities to Jan Dhan account holders. Jan Dhan accounts account for less than 1% of the total deposits in the banking system. The Demonetization of high denomination notes has led to an increase in cash deposits in Jan Dhan accounts and this move has also made Jan Dhan account holders accustomed to the banking system.

Through demonetization, illegally deposited money is being transferred from hoarders to the government. The transferred income received in this form is being used by the government for many productive purposes. One of the objectives of demonetization is that it will reduce the exchange in the form of cash and people will pay more on the internet or mobile or credit/debit cards of banks. This will lead to more exchanges through banking (or the formal financial system) that can be directly accounted for and avoid the obligation to pay taxes (i.e., reduce tax evasion). There is no record of the exchangers in cash payments, hence the possibility of tax evasion is high. Today the exchange in the form of cash has reduced.

Demonetization can be considered a weapon to force the public to comply with taxes from the government. According to the Economic Survey 2016-17 of the Government of India, this is a clear warning to the public from the government that it is determined to eliminate black income and tax evasion will no longer be tolerated. This is an open message to future tax evaders to either continue with their tax responsibility at normal low rates or be ready to pay hefty fines. This has had a lasting impact on corruption and tax payment. Here it is necessary to consider the question of whether as a result of demonetization, there was an improvement in tax compliance. In this context, Economic Survey 2017-18 states that in the period of thirteen months after demonetization (ie from November 2016 to November 2017) 1 crore 1 lakh new taxpayers joined the tax system, whereas in the previous 6 years. On average 62 lakh taxpayers joined during the period. But it cannot be said that the entire increase in the number of taxpayers was due to demonetization. Because some growth happens naturally. Keeping this in view, a regression analysis has been done in the Economic Survey, which shows that due to demonetization and Goods and Services Tax (GST) in the above period, 18 lakh new taxpayers joined the tax system, of which 3 percent of the existing taxpayers. But most of the new taxpayers reported their income around the lowest amount of taxation (Rs 2.50 lakh per annum), which would make the expected increase in tax income negligible. It is hoped in the survey that "as the income of new taxpayers increases above the minimum tax payable income amount in future, the government will be able to get more income from taxes.

Demonetization has had a direct and effective effect on the purchase and sale of land and building assets. The reason for this is that black money is a major part of buying and selling in this area and a huge amount is paid as black income in every transaction. To the extent the use of black income has been reduced due to demonetization and to the extent that electronic means (credit/debit cards etc.) Can you

About 3 crore 60 lakh micro, small and medium enterprises in the country provide about 40 percent of India's export earnings and provide employment to about 80 million people. Many of these enterprises are engaged in the gems and jewelry industry, carpet industry, textile industry, leather industry, handicrafts, loom industry, etc. All these industries are labor-intensive industries in which employment is available to a large number of people. They require a huge amount of cash for their working capital. These enterprises were badly hit by the huge liquidity crunch as a result of demonetization. Many enterprises were also unable to pay salaries to their employees. Production declined and exports of gems and jewelry, readymade garments, meat and dairy products, handicrafts, and carpet industries either declined or declined in November 2016 compared to October 2016. 24 As far as imports are concerned, there was a sharp increase in gold imports in November 2016 as many domestic buyers were seen trying to buy gold by giving away their old notes in large quantities (they were even willing to pay higher gold prices for this). Were). As far as invisible items are concerned, private transfers declined. This was probably because the families to which their members were remitting money from abroad were unable to get cash against the resources received from abroad, due to cash limits from banks.

As a result of demonetization, there was rapid growth in digital modes of payment. The Government of India and the Reserve Bank have taken several steps to facilitate payments through digital means. Purchases through debit and credit cards were encouraged, tax benefits were provided on digital transactions, new digital channels were introduced and the available digital channels were further expanded.

According to the data released by the Central Statistical Organization, the GDP growth rate in the April-June quarter of 2017 stood at 5.7 percent as against 6.1 percent in the previous quarter, January-March 2017 (which was the first quarter after demonetization). the growth rate was less than in the April-June quarter of 2016, the growth rate was even higher at 7.9 percent. According to the Indian Government's Economic Survey 2016-17 (Second Volume published in August 2017), "Gross Domestic Product's growth rate started declining before demonetization but accelerated after demonetization." The main reason for the decline was that although overall the organized sector was spared from the adverse effects of demonetization, some manufacturing and services sectors were adversely affected by demonetization. The sectors whose activities were adversely affected were: the consumer goods sector (particularly the automotive and auto sector), construction and the land-property sector, and the unorganized service sector (such as vehicle maintenance and repair services, personal and family goods repair services, etc.).

Demonetization also affected different segments of the financial market more or less in many ways. But these effects were short-lived. The additional liquidity brought by the demonetization to the banking sector resulted in a reduction in the bias towards government securities. Short-term money market rates remained within range but showed some decline. As a result of this decline, there was some reduction in other short-term rates as well. In the stock market, cash-dependent sectors (such as land-property, consumer durables, vehicles, etc.) saw a sharp decline in share prices in November and December, but later recovered and saw an increase in share prices. Effects on foreign exchange etc. are temporary.

## CONCLUSION:

Demonetization can be seen primarily as a tax administration move aimed at levying tax on deposits as black income. But since income from high denomination currency can also be generated through the right avenues and may have been paid in full, it is necessary to adopt a system under which the 'white' and 'black' differences can be made. According to the data, while 6.32 lakh counterfeit notes were seized in the financial year 2015-16, on the other hand, 7.62 lakh counterfeit notes were seized in the financial year 2016-17. Four years after demonetization was implemented, 18.87 lakh counterfeit notes were confiscated. According to the Reserve Bank's annual report for the year 2019-20, the denomination of Rs 100 is the highest among most of the notes seized in the post-demonetization year. 1.7 lakh counterfeit notes were seized in the year 2019-20, 2.2 lakh counterfeit notes in the year 2018-

19, and 2.4 lakh counterfeit notes in the year 2017-18. The report said that the number of counterfeit notes seized in the denominations of Rs 10, 50, 200, and Rs 500 decreased by 144.6 percent, 28.7 percent, 151.2 percent, and 37.5 percent respectively in the year 2019-20 as compared to the financial year 2018-19. was increased. Thus, in conclusion, it can be said that despite drastic steps like demonetization, fake notes are still spreading in the economy.

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