

A STUDY ON THE IMPACT OF DEMONETIZATION ON INDIAN ECONOMY – A CRITICAL REVIEW

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Abstract

The Government India has taken a bold step on November 8th 2016. The main aim of this paper is to explain the impact of demonetization on Indian economy and effects on various sectors. The PM Narendra Modi was announced on 8th Nov' 2016, 500 and 1000 rupees bank notes would be withdrawn from circulation, replaced by new 500 and 2000 rupees denomination notes. The main thought behind demonetization was to control the black money in the Indian economy and anti money laundering which has been used extensively by terrorists, and to increase e-transactions in the country, to tackle black money in the economy the cash circulation in the country which is directly related to corruption in our country, to eliminate fake denominations and dodgy funds which are being used by terror groups to raise terrorism in India, to fight black money, corruption, terrorism and counterfeit currency with one single decision, impact of demonetization means growth can accelerate only in the second quarter of the next financial year, there may be risk that gross domestic product growth could slow to 6.5 percent in the fourth quarter of 2016 against our current estimate of 7.3 percent and to 7.5 percent in the first quarter of 2017 from 7.9 percent.

Keywords: Demonetization impact, cashless transactions, black money/market, digital economy and Gross Domestic Product of economy etc.

Introduction:

Prime Minister announced that Rs 500 and Rs 1000 will not be legal means of money from midnight tonight and these will be “just worthless pieces of paper. PM also urged people to join this Mahayagna against the ills of corruption the sudden nature of the announcement-and the prolonged cash shortages in the weeks that followed-created significant disruption throughout the economy, threatening economic output.

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The move was heavily criticized as poorly planned and unfair, and was met with protests, litigations and strikes. The main motive was to extract the value of black money from corrupted people. History of currency in India makes for a fascinating reading it traces its roots to almost 6 BC (as old as recorded human history). The Indians due to their orientation and skills in metallurgy were one of the earliest civilizations to adopt coinage along with the Chinese, Egyptians and the Lydians (Indo-European clan settled in the middle east) The first Indian minted coins were essentially of Silver and were punch of different shapes and figures including that of humped bull, swastika and other symbols, were called Puranas, Karshapanas or Pana . They were believed to be minted in the 6th century BC by the Mahajanapadasie republic kingdoms of ancient India. The Mauryan Emperor Chandragupta is credited to been the first royal to have a royal standard inscribed to the his currency which came in different standards namely Gold, Silver, Copper and Lead(Arthashastra).The Indo-Greek Kushan kings introduced the Greek custom of engraving portrait heads on coins. The Kushan empire and its sytem of intricately designed coinage also influenced a large number of local tribes, dynasties, and kingdoms, which began issuing their own coins. The practice continued well in to the advent of Turkish and Mughal Sultanates in India. The Mughals in particular attempted to bring a unified and consolidated monetary system for the entire kingdom. However, it is Sher Shah Suri who undisputedly credited with the introduction of the term ‘rupiya’ to the silver coin weighing 178 grams divided into 40 copper pieces termed paisa. It is a drastic innovation into the economy that involves removing the legal tender status of a currency. It can cause chaos or a serious downturn in an economy if it goes wrong, it is a weapon used to stabilize a currency and fight inflation, to facilitate trade and access to markets, and to push informal economic activity into more transparency and away from black and grey markets it is an act of discarding the legal tender status of a currency unit in circulation. Anticipating positive changes on the liquidity structure as whole, nations often adopt demonetization policy as a whole to maintain the balance of current economic system of the country. It will help to control hyper inflation and gives economy a boost in respective fields.

PM Narendra Modi introduced several reforms for the inclusive growth of the economy, many institutional/sectors and structural changes for the strengthening the Indian economy, reduced corruption and new policy for large sums of black money were kept hidden by tax evaders. Demonetization helped the Government uncover huge amount of unaccounted cash. According to RBI, people have deposited more than rupees 3 lakh Crores worth of black money in the bank accounts, this has helped the government in slowing down

the plague of parallel economy, main reason behind demonetization was that a big part of black money was being used for funding terrorism, gambling, in inflating the price of major assets classes like real estate, gold and other social evils. It is acting as an effective countermeasure against such activities. The Government of India spends huge amount on human welfare activities and poverty alleviation programmes reduced unemployment, Now all such activities will get reduced for some time and also it will take years for people to generate that amount of black money again and hence in a way it helps in putting an end this circle of people doing illegal activities to earn black money and using that black money to do more illegal activities. Another benefit is that due to people disclosing their income by depositing money in their bank accounts government gets a good amount of tax revenue which can be used by the government towards the betterment of society by providing good infrastructure, hospitals, educational institutions, roads and many facilities for poor and needy sections of society. The demonetization of the highest denomination currency notes is part of several measures undertaken by the Government to address tax evasion, counterfeit currency and funding of illegal activities. The requirement to deposit currency notes in excess of specified limits directly into bank accounts has resulted in the declaration of hitherto unaccounted income, subject to higher tax and other penalties. India has one of the highest levels of currencies in circulation at over 12 percent of GDP and of this cash, 87 percent is in the form of Rs.500 and Rs.1, 000 notes. Globally, this is not unusual as the central banks of several countries pump massive amounts of cash into the economy, mostly in very large denominations. Facilitating faster payment services the payments eco-system in the country provides multiple options to different segments of users for funds transfer as well as for making payments in exchange of value for goods and services. With increasing adoption of electronic payments, particularly those driving e-commerce and m-commerce, there is a growing demand for faster payment services and transactions which, in turn, facilitate ease in doing financial transactions. It is the act of stripping a currency unit of its status as legal tender, it is necessary, whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit. This is starting journey, the moment when it will gear up with the positive attitude in the minds of public, the above cashless transactions can further increased with huge numbers. No doubt there may be some problems at initial stage to all but with the cooperation from all sides and all sectors, the same will be minimized. The question is how to increase cashless transactions in an economy like India where 21 percent people are below poverty line, literacy rate is nearly 46 percent and so many regional languages are being used. Farmers have important role in the economy and

most of them are illiterate. Further, their most of the business is run through cash only. After formation of Modi Government the process has been started for cashless India on 15th Aug'. 2014. when PM announced opening of PM Jan-Dhan Yojana accounts on affordable cost for poor and unbanked areas under financial inclusion. 2016, old notes of denomination of Rs.500/ and Rs.1000/- notes will not be in use except some life saving services for time being. Further, so many additions and modifications have been made in the above process. Perhaps the main thought behind demonetization was first, to control the black money in the Indian economy and anti money laundering which has been used extensively by terrorists, and to increase e-transactions in the country. Though, result of the above will come in due course of time but it is sure that all developed countries are moving towards cashless transactions. No doubt control of currency needs huge expenses like printing, preserving, security and Modi Government taken steps for the strengthen India and shining India.

Review of Literature:

1. **Tax Research Team (2016)**, the main objective is to analyse the impact of demonetization on Indian economy and it shows the impact of such a move on the availability of credit, spending level of activity and government finances. Sukanta
2. **Sarkar (2010)**, conducted a study on the India's parallel economy :Causes, impacts and 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 that is the Indian government just focused on making committees rather than to implement it .The study concludes that laws should be implemented properly to curb black money in the economy.
3. **Abhani Dhara K. (2017)** posits that this Demonetisation is proving to be more successful than the previous two. The era is changing. People are using online banking as a mode of payment. Bank employees are giving their best to make the demonetisation a successful one. Though the demonetisation move has failed to grab total black money in the economy, this has at least created fear in the minds of people holding black money. He concluded that demonetisation was a compulsory step to tackle the problem of black money, terrorism and corruption etc.

Objectives of the study:

1. To study the role and need of demonetization, and to study the impact of demonetization on various sectors.
2. To study the positive and negative impact of demonetization on Indian economy.
3. To examine the status of electronic payment system in India and its importance for rapid development.

Hypothesis:

1. To study the demonetization effects in various sectors in the country.
2. To study there is significant relationship between pre and post demonetization period.

Methodology:

The study is based on secondary sources of data information. The opposite of demonetization is remonetisation, in which a form of payment is restored as legal tender. The sectors which faced problem by demonetization are Banking, Automobiles, Cement, FMCG, Pharmaceutical and Agriculture. Demonetization affected India's stock market also. BSE and NIFTY both crashed around 1689 and 541 points respectively in that week. Demonetization is the act of stripping a currency unit of its nature as legal tender the study attempts to examine the Cashless payment.

Scope of the study:

This study will be helpful for the students, researchers, citizens of India. Through this study Government will be able to know about the future conditions of the economy. The study covers only the demonetization impact and results on Indian economy and recent economic policies in Indian economy.

Data collection:

In this my paper secondary data has used for the study which data is collected from various books, journals, thesis, publications, magazines, news papers, library, text books, articles and from relevant websites available on internet.

Demonetization in India:

The Government has told in parliament that 4.9 lakh crore rupees deposited in various accounts is under scrutiny. If this is true then the Indian government will get 2.5 lakh crore in taxes next year and 1.5 lakh every year in taxes in the future from this unearthed money. The

digital transactions has increased then dipped and now settled at 107 lakh crores in July in the year 2018. It is a disruptive economic tool in the hands of government which are also known as policy makers to control the cash flow in the economy it is the act of stripping a currency unit of its status as legal tender. It is the process of ceasing to produce and circulate particular forms of currency. This is necessary whenever there is a change of national currency. The old unit of currency is retired and replaced with a new currency unit. Legal tender is a medium of payment recognized by a legal system to be valid for meeting a financial obligation. It can be anything which when offered in payment extinguishes the debt. Coins and banknotes are usually defined as legal tender whereas personal cheques, credit cards, and similar non-cash methods of payment are not considered legal tender as debt obligations is not relieved until the payment is tendered. The higher denomination banknotes in Rs 1,000, Rs 5,000 and Rs 10,000 were reintroduced in the year 1954 and these banknotes were again demonetized in January 1978. So the last time demonetization was done in India is almost 38 years ago.

Importance of Cash less Transactions in India:

It is a very positive move as in the longer term it will formalize the economy further change deep - rooted behaviour. Cost effective to Banks - Normally, if bank transactions are done manually, it costs nearly Rs.40 to 45 and the same is done through internet it costs 7 to 8. Simultaneously, it same transactions is done through either U Mobile or ATM it hardly costs Rs. 12 to 14 and Rs.3.to 4 respectively. Less time consumed, definitely the level of customer service will go very high and this will help in minimizing customer complaint. At present banking is required good number of staff to attend and redress the complaints at different stages. Safe and Secure: Both it is safer for bank and customer as well, it keeps high degree of secrecy. Up - gradation of technology. No doubt the focus should shift to encourage cashless transactions with the framework of using different technology available in the present market. Banking are increasing their ATMs, PoS machines, Banking Correspondence and E- Lobby which is ultimately upgrade the technology. Control of Black Money and check for anti money laundry – even transactions can be done through e banking but same can be traced while it is very difficult to trace the transactions in cash. There are certain check also in depositing and withdrawing money through bank accounts. Hence, it will definitely control over black money and money laundering in the days to come.

Positive impact demonetization has a very positive impact of millions of human traffickers other sectors like drug trafficking, illegal dealing of money, funding of election

and involvement of various terrorist groups effected badly, steps towards cashless economy real estate can see significant course of correction less chance of avoiding taxes parallel economy, break down of black money accumulation affects a country's economy in a negative way, it helps in shutting down the trading of goods or services which are runned through illegal means and thus destroying the savings and having a positive impact on its economy, real estate is one of the industries that runs largely on black money, demonetization stops the flow of black money in the real estate sector to ensure a fair system. Increase in Bank deposits - the circulation of the old currency notes is banned and those who are having these denomination notes should get their money deposited in the banks so that there is no wastage. Hence, cash amounting of millions of rupees get deposited in the banks, cutting monetary support for terrorist activities-anti-nationals support terrorist activities in the country by providing monetary support to the terrorist groups, this money helps them to purchase arms and ammunitions, due to demonetizations funds which they were using would be completely vanished and thus promoting peace and harmony among people.

Negative impact of demonetization is liquidity crisis demonetisation gave rise to liquidity problems in the economy as people found it difficult to get sufficient amount of cash to fulfil their basic needs, marginal section of the society mainly depends on cash to meet their transactions held daily, out of total currency in circulation 500 rupees notes constituted nearly 49 percent in terms of value, more the time is required to resupply rs 500 notes, the more will be the time period of liquidity crisis, and consumption cash shortage adversely affected the consumption behaviour of people in India, the sales of consumer durables likely to be hampered in short-term, especially sales through unorganised channels are cash purchases, most of the purchases by retailers are through cash which brought down their value of trade decrease in GDP withdrawal of higher denomination notes reduces the growth rate of the economy, demonetization reduces consumption pattern, income, investment, etc.

Modern world followed by the technological based economies and the same way to development of all sectors through the technology modern countries are based on technology. These banking channel-both cash and cashless transactions can be done other delivery channels are a) ATM and Internet Banking b) Debit cards and credit cards c) Mobile Banking and various wallet d) Various transactions Apps like Paytm, NPCI etc. e) Though banking correspondence and POS machines since ultimate transactions are being done through banks only, hence, banks can play a vital role in the cash less economy of every

country. India's cash transaction value as percentage of total transactions is pretty high at 68 percent in comparison to other developed countries as it is 20 percent in US, 14 percent in USA, 11 percent in UK and 8 percent in France. The country witnessed many a things since then, from the hardships of the many to boom of the digital payments, the industry, it was the beginning of a cash-less era, in cities like Bangalore and Mumbai, the number of card swipes went out of the roof, the network also crashed during the first weekend of demonetization. People who pay in cash were forced to make the digital move and start the use of cash cards. The country witnessed many a things since then. From the hardships of the many to boom of the digital payments. The term demonetization is not new to the Indian economy. The highest denomination note ever printed by the Reserve Bank of India was the Rs 10,000 note in 1938 and again in 1954. But these notes were demonetized in January 1946 and again in January 1978, according to RBI data. Prime Minister Narendra Modi came out with his master stroke on corruption, counterfeit currency, terrorism and black money by announcing Demonetization and ceasing Rs 500 and Rs. 1000 notes as a part of legal tender in India. The Reserve Bank of India manages currency in India and derives its role in currency management on the basis of the Reserve Bank of India Act, 1934 and a new redesigned series of Rs 500 banknote, in addition to a new denomination of Rs 2000 banknote is in circulation since November 10, 2016. The new redesigned series is also expected to be introduced to the banknote denominations of Rs 1000, Rs 100 and Rs 50 in the coming months. The highest denomination note ever printed by the Reserve Bank of India was the Rs 10,000 note in 1938 and again in 1954. But these notes were demonetised in January 1946 and again in January 1978, according to Reserve Bank India data. Since less than 5 percent of population in India had access to such notes and most banks never had such currency notes, it did not have a big impact on the country. The decision was taken to curb the illegal use of high denomination currency which was used for corrupt deals in the country. We cannot ignore the increased cost of operating ATMs need to be refilled more often and also it will be a huge burden on banks. Initially, it is very difficult to create a cashless society as more than 50 percent of Indian population is not well versed with card transactions. But the government is taking steps to improve liquidity into the system and reduce inconvenience as much as possible. It was a measure step taken by the government of India to deal with black money which was in abundance in Indian market and society, all ATM's should have both withdrawal and deposit facilities, regular and biometric facility, educate everyone about the use of e-wallet and debit and credit cards, camps should be organised at village levels and city levels at each and every corners, give every businessman, who has current account with banks, swipe

machine at the earliest possible, incentivize savings and private investment, cut down on lending rates, scrap the income tax in a decent manner, simplification of GST end the raid culture agriculture needs global push roll back the customs duty on gold.

Conclusion:

The present paper concludes demonetization is a great effort taken by the government of India to combat with black money and corruption, its impact of monetary reforms in India results is mixed negative and positive manner and certainly going to experience Acche Din in PM Narendra Modi. Rome was not built in a day and similarly this plan is the result of Modi meticulous planning and never ending, there may be risk that Gross Domestic Product growth could slow to 6.5 percent in the fourth quarter of 2016 against our current estimate of 7.3 percent and to 7.5 percent in the first quarter of 2017 from 7.9 percent. Since cashless transaction will lead to e-transactions. There has been a drastic improvement in electronic transactions which may boost cyber crime, so we make people aware of ways to keep credit, debit cards safe and to train them to teach the measures to keep our transactions hassle free. We need a specially trained cyber police, forensic labs with state of the art evidence gathering tools, public prosecutors who understand technology and cyber courts to punish cyber criminals, hope the India will be in line of developed countries in the days to come and development is inclusively and rapidly.

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