

## **Impact of Demonetization on Indian Economy**

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### **Abstract**

*The demonetization of the Rs.500 and Rs.1000 currency notes has helped clean up the Indian economy by revealing hidden black money and preventing the funding of corruption and terrorism. Although it may not be the boldest policy Prime Minister Shri Narendra Damodardas Modi has implemented since assuming office, demonetization has had a significant impact on reducing black money. The demonetization was revolutionary in the largest democracy in the world because it questioned the state's obligation to "pay the bearer" the face value printed on each banknote. In the long run, the national deficit will shrink significantly, and the country will have a relatively pristine economic climate.*

**Keywords:** *Demonetization, Black Money.*

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### **I. INTRODUCTION**

India has been playing an important historically, culturally, linguistically, and mythologically in the world. India is being watched closely by people all over the world for innovative solutions to both domestic and global issues. The term "Demonetization" describes the action of eliminating a given denomination of currency notes from circulation. This is what happens whenever a country's currency is changed. The Indian government demonetized the 500 and 1000 Mahatma Gandhi series banknotes on November 8, 2016.

#### **OBJECTIVE OF DEMONETIZATION**

According to the Indian government, the reason for demonetization was to reduce the amount of unaccounted cash flowing through the country's shadow economy. The abrupt nature of the revelation, along with the widespread cash shortages that persisted in the weeks that followed, seriously jeopardized economic production. There was widespread criticism that the demonetization initiative was ill-thought out.

**Black Money:** - Black market activity in India is estimated to be worth about Rs 30 lakh crore, or roughly 20% of GDP. The GDP of countries like Thailand and Argentina are smaller than this. This decision leaves those in possession of illegal funds with only two choices: either legally deposit their funds in a bank and report them as income, or destroy the relevant documentation.

**Terrorism and Fake Currency:** — The threat of terrorism is very real and very scary. And yet, have you ever considered the sources of the funds that enable these terrorist organisations to operate? We know that our cross-border enemies have used counterfeit bills in their trade.

**Economy:** - Because of the very beneficial influence on economic stability in the near future, these judgements will have a significant impact on India's economy. Significant deflation is anticipated during the next six to seven months. In the foreseeable future, industries like real estate, building supplies, Gold, unorganised trade, and services will feel severe suffering.

**Election:** - It's common knowledge that political parties rely heavily on illegal funds. Using truckloads of cash, even for the forthcoming elections, will be an arduous undertaking. Now, in the upcoming election in April 2019, neither party can buy the support of poor people, and as a result, everyone should expect to see a significant shift in the electoral landscape.

#### **Unorganized Trading: -**

The involvement of black money has led to a price increase in the real estate sector; this decision will lead to a reduction in property prices to their true value.

This decision would help decrease unorganised trading in the stock market, which is good for the country's economy.

Thirdly, the government will have more money to spend thanks to the increased taxation and disclosure of income, hence reducing inflation.

Because of the massive influx of cash, the financial system as a whole will be fortified as well. As a result, the nation's economy will flourish further as more money finds its way through the banking system.

**Less Cash/ Cash-Less Economy:** - A cashless economy in India is impossible to achieve, but reducing cash usage can help the country advance economically and increase public trust in its financial system. As a result, training the public to use electronic payment systems and plastic currency is essential.

## **II. RESEARCH METHODOLOGY**

It is important to note that this paper relies on secondary resources. The data presented here comes from a wide variety of published and unpublished articles, academic papers, periodicals, newspapers, internet media, and the RBI's own website. There was no warning or scheduled timing for the announcement. A real-time transmission on the evening of November 8, 2016. A lack of readily available currency created by the demonetization process rippled through the economy. At least a few people lost their lives as a result of the mayhem caused by the long queues of people waiting to exchange their money.

## **III. LITERATURE REVIEW**

The topic of currency demonetization has been the subject of numerous studies, newspaper articles, and books. To help you better understand demonetization, we've highlighted several key points. Credit card readers and Paytm barcodes can be seen virtually anywhere these days, showing how widely accepted the change has become

### **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:**

-Back-to-back droughts have been a major contributor to the slowdown in agricultural growth in India, which was 0.2% in 2014-15 and 1.2% in 2015-16. Despite the CRISIL Report's (Credit Rating Information Services of India Limited) prediction of 4% growth this year, farmers are struggling to pay for necessities like seed, fertiliser, machinery, workers' salaries, and agents' commissions because of the recent demonetization. The daily supply transport system has also been impacted by the cash scarcity, resulting in a 25-50% drop in sales. Here are some of the most important ones:

First, a recent survey by the Reserve Bank of India found that 78 percent of farmers are unfamiliar with the concept of cashless transactions and therefore unable to take advantage of their potential financial benefits.

Farmers spend a lot of time in banks exchanging old notes because a proper banking system has not yet been developed in most villages.

**B.) Demonetization on Business sector:-** According to IPP's data, the business sector grew by 0.7% in October. However, after 8thNov.2016's demonetization, a different picture emerges: production has dropped, workers have been leaving in droves, and consumers are buying fewer goods than before because they're illegal to own.

**I.Textile industry:-** Most brands and retailers saw a 40-60% loss in sales immediately following demonetization. While business has improved slightly since December, it is safe to conclude that the move will continue to have repercussions for the rest of 2017 and at least three months into 2018.

**II.Real Estate:-** The real estate market has been devastated by demonetization, and experts predict that prices will continue to fall by as much as 50 percent over the next five to six months. While this is bad news in the immediate term, analysts are optimistic that further rate reduction would spur housing market activity.

**III.FMCG Products** The decision has had a knock-on effect on consumer spending; currently, people are just buying the necessities, and small traders like kirana stores, tiny bodies, etc. have seen a 20-30% decline in daily sales as a result of consumers having less disposable income to spend. It will have no lasting effect, and everything will return to normal in the not-too-distant future.

**C.) Impact of Demonetization on Service Sector:-** The November 2016 decision to demonetize currency caused the service sector to suffer its greatest slump in over three years.

### **CRITICISM**

Transitions are difficult at first, chaotic in the middle, and beautiful in the end, according to Professor Raghuram Rajan, a leading expert on leadership around the world. The most common criticism is that its implementation has been extremely inconvenient for the typical person. Demonetization could have been a successful strategy with positive results if it had been better prepared for. The shift from a cash-based to a cashless economy in India is the ultimate aim, but demonetization is just a way to get there. To rein in this societal behemoth, stricter rules on laws like the Prevention of Corruption Act, the Disclosure of Income Tax Act, and the Prohibition of Benami Transaction Amendment Act are required.

### **RURAL ECONOMY**

At over 68% of employment and 50% of GDP, the rural economy is the most vital sector. Demonetization has generated major distortions because farmers can't sell their products and would rather be paid in cash. Despite the fact that farmers in rural India often live many miles from any kind of financial institution and that there are hardly any automated teller machines (ATMs) in these areas, this historic step has the potential to bring about transformational changes in the sector, including improved access to credit for farmers, the removal of middlemen, the direct transfer of subsidies to farmers, and the eventual linking of the Indian farmer to the global agricultural market. The agricultural sector will experience resounding success if the government and business community work together to aid farmers. Farmers need support from both the government and the private sector if this programme is to be a smashing success for agriculture. Many economists have lowered their growth projections for the fiscal 2016/2017 (April 2016-March 2017) as a direct result of the demonetization process.

**TABLE A**

	<i>Original 2017</i>	<i>Revised 2017</i>	<i>2018</i>
Reserve Bank of India	7.6%	7.1%	-
World Bank	7.6%	7.0%	7.6%
IMF	7.6%	6.6%	7.2%
Rabobank	7.0%	5.5%	8.2%

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.

### **IV. FINDINGS**

First, most people with bank accounts are accustomed to using these services online, which is facilitating India's transition to a cashless society.

Secondly, banks have more access to foreign currency reserves.

Third, most clients now use online banking services, even though banks have offered them for some time.

The impact of India's November demonetisation of high-value currency was seen in the addition of 9.1 million new taxpayers in 2016-17, an increase of 80% from the usual annual rise.

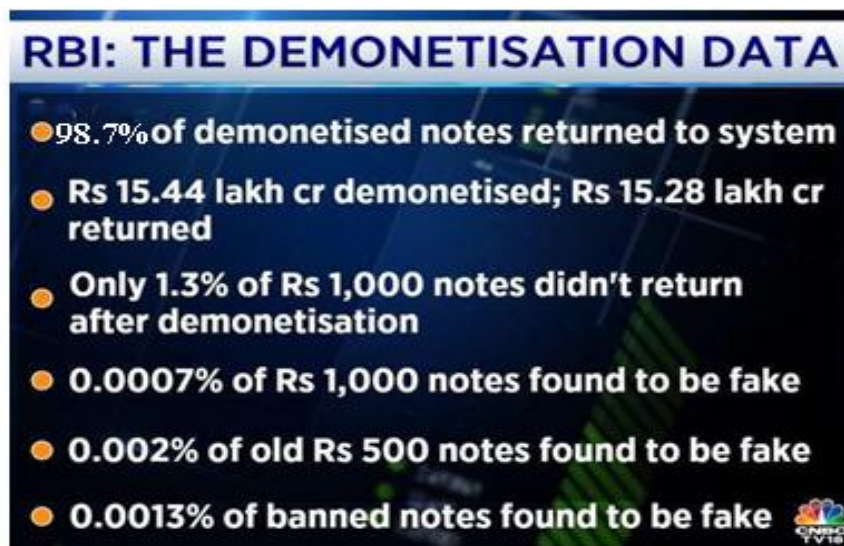
It is expected that the long-term benefits of demonetization on GDP growth will outweigh the temporary negative effects during the transition period.

### **RBI DATA ON DEMONETIZATION**

India's GDP growth was severely impacted by the government's decision to demonetize its currency in an effort to combat dirty money, but now that nearly all of the currency has been accounted for, some question whether or not the government's move was successful. It is unclear how demonetization will affect the Indian economy in the long run.

Based on RBI data, out of the total amount of Rs 15.44 lakh crore that was withdrawn from circulation, Rs 15.28 lakh crore have been placed back into the system and roughly Rs 16,000 crore is yet to be transferred back to banks. According to the RBI assessment, the value of the demonetized Rs 1,000 notes that had not returned to circulation was around Rs 8,900 crore, representing 8.9 crore units. On the day of

demonetization, there were 632.6 crore Rs 1,000 notes in circulation. After demonetization, just roughly 1.3% of Rs 1000 notes were not returned.



The positive effects of demonetization will take time to materialise, but they will be there in spades eventually. To encourage the widespread adoption of cashless transactions, it will be necessary to translate websites into native languages and provide digital literacy training to the general public. Despite initial jitters, the demonetization of larger denomination notes was a wise decision that will ultimately benefit India's economy. Even though regular people will likely experience some difficulty, the government could have provided them with options to help the economy of India. With this change, tax compliance has increased, fiscal balance has improved, inflation has decreased, corruption has decreased, and the circulation of counterfeit cash has decreased, all of which are positive developments that pave the way for longer-term, sustainable economic growth. By taking this measure, we can stem the tide of counterfeit currency. The elimination of paper currency is one step closer to realising India's vision of becoming a fully digitalized society.

There are a lot of positive outcomes from India's decision to demonetize. The demonetization procedure in India has helped to eliminate the circulation of counterfeit currency. In India, demonetization has not been an easy process. Nonetheless, it has had both beneficial and bad effects in the near term. Whether or not these benefits will endure, however, is still up for debate. Long-term, demonetization will lead to a greater degree of economic formalisation.

## V. CONCLUSION

Even if almost 98.7 percent of the destroyed notes have returned to the system, Prime Minister Sri Narendra Modi Ji has succeeded in proving the government's commitment to tackling black money and tax evasion by using depositor data. The government's renewed focus on eliminating cash transactions and the creation of black money, in tandem with the goods and services tax (GST) and the electronic way bill system, will undoubtedly help to clean up the economy.

Prime Minister Modi has signalled that land titles will be digitised as part of a broader drive to tackle corruption and tax fraud, and this follows on the heels of the successful demonetization. Using these digital files, tax cheats who have been registering their assets under false names can be identified. More pressure would be put on the already struggling real estate market as a result of the property's digitalization. And there's universal support for this move.

As a result of this modification, business owners who have not yet registered their companies will be incentivized to do so. Thus, tax revenue to governments will increase. First among the states to pass a law in support of the demonetization effort is Chhattisgarh.

As a result, the amount of money being circulated illegally will decrease, and some of that money will find its way into the legitimate economy.

If the government can recover money from the shadow economy, it can raise tax income.

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