



IMPACT OF DEMONETISATION IN INDIAN ECONOMY

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ABSTRACT

The government has implemented a major change in the economy by demonetizing the high value currency notes of Rs 500 and Rs 1000 denomination. The reasons for demonetization are, to control counterfeit notes that could be contributing to terrorism in order to secure our nation and to eliminate corruption and black money. The proposal by the government involves the elimination of existing notes from circulation and a gradual replacement with a new set of notes. Due to demonetization, banks and ATMs across the country faced severe cash shortages and there was a sudden change in the economy, whereas cash transactions and economic activities had been reduced to the greater extent, the study is mainly experiencing with the current immediate impact of demonetization in the economy. Since our nation is more of illiterates, low income group, agricultural groups and they are all dependent upon cash transactions than digital. Due to hackers people of the nation are scared to do online transactions. So Demonetization has hit trade and consumption with people struggling for cash to pay for goods and services. The study is also to analyze the effects of demonetization on various income groups of the country.

KEYWORDS : Demonetization, Counterfeit, Corruption, Black money, Transactions, Hackers, Trade, Consumption

I. INTRODUCTION

Demonetization is the act of stripping a currency unit of its status as legal tender. In other words, Demonetization means withdrawal of a particular form of currency from circulation. The government has implemented a major change in the economy by demonetizing the high value currency notes of Rs 500 and Rs 1000 denomination. These ceased to be legal tender from the midnight of 8th of November 2016. The deposit of these notes with the Commercial Banks ends on December 30th, 2016. Further, currency notes should be deposited with RBI till Mar 31st, 2017. 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. The reasons are as under:

- To tackle black money in the economy
- To lower the cash circulation in the country, which is directly related to corruption
- To eliminate fake currency which have been used by terror groups to fund terrorism in India?

II. REVIEW OF LITERATURE

In (Nov 2016, Research Team) The Research Paper is about to evaluate the short and medium term impact on Demonetization shock. The researchers are also concentrated on Impact of such move on availability of credit, Spending, level of activities and government finances. The paper also gives description on accounted and unaccounted transactions, illegal and informal sector transactions.

(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 et al.,) 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.

In (Nov 2016, Madan Sabnavis et al.,) the paper highlights the consequences of decisions on various economic variables and entities

Positive Impact of Demonetization

- **Elimination of counterfeit currency**

By demonetizing the highest currency notes India could almost eliminate 100% fake currency out of circulation in one stroke.

- **Abolish black money**

People having black money generally keep their black money in highest denomination currency notes. This step would abolish black money from the economy as the owners will not be in a position to deposit the same in the banks. This step would make black money kept in cash which generally used to create chaos and terror or is lying with terrorists, Maoists, naxalites, scrap.

- **Strengthen Indian Banking System**

This will automatically lead to more amounts being deposited in Savings and Current Account cash laying out of economy flow is now coming into circulation. This in turn will enhance the liquidity position of the banks, which can be utilized further for lending purposes.

- **Financial inclusion for Jan Dhan account holders**

Government opened Jan Dhan accounts for financial inclusion purpose, but people were reluctant to keep money in the bank, but after this step of government, people will start depositing their cash into banks thereby strengthening Indian banking system, citizen are and will become beneficiaries of financial inclusion!

- **Higher Tax Collection**

This led to higher tax collection as business men are depositing cash lying with them as current year income with advance tax. Defaulters of bank, property tax, electricity bills and telecom bills are clearing their long pending bills and thus utilizing their old currency notes.

- **Deflation**

Price level is expected to be lowered only marginally and temporarily due to moderation from demand side. Small vendors who generally deals in cash would now start using cashless modes for transactions or digital methods.

- **Price cut in Real estate**

As we all know the hype in real estate prices is because of the circulation of black money in this market. Now from this step almost all that black money would get out of circulation from this sector. Eventually the sky touching prices of properties will come down to the reach of a common man. Finally a common man can buy his dream home soon. Hopefully!

- **A Speed Breaker for Corruption**

This step of government will subdue corruption up to a certain level and for a considerable time period which in return will attract foreign investor to Indian market. Indian market has been the first choice of investors considering it's large size and huge number of consumers. Till now they were reluctant to invest in India because of prevalent corruption and red-tapism. Now we can say that India has overcome both the barriers.

- **Bank Rate Cut**

Larger the money in circulation results in better the conditions of banks now banks no longer for a considerable time from now face liquidity issues. That will result into lower Bank rates. You will have to pay less interest on EMIs.

NEGATIVE IMPACT OF DEMONETIZATION

• Adverse impact on informal sector

Players of informal sector as they mainly deals in cash only are facing tough time due to this Demonetization scheme. Sudden removal of cash from market put their business on a dormant phase. It is important to understand that their income is not black as they don't come under income tax slab because of less income which has become even lesser now.

• Plight of Primary Producers

Lack of liquidity would result in distress to primary producers who don't have much money, so that they could hold their produce for long and on the other side due to lack of currency in flow they are offered very less by the buyers in the market.

• Non-acceptance of Old currency regardless Government Orders

Many prescribed business houses and establishments are **not accepting old currency notes from common people**, thus leaving them helpless. The fact that such people have no remedy against such people/ business houses makes the situation worst. Milk Booths, Chemists, Petrol Pumps and Safal Stores etc. are among others. These are dealing with basic necessities of common people.

• Possibility of breaking Riots

There are **many anti-state elements** present in the society who are **trying to spread unrest in the society**. They can exploit the situation and incite those disheartened people to **make a platform to break riots**.

• Excessive burden on bank employees

This is a clear fact that there is an **excessive burden on bank employees** to cope up with the situation and even after working so hard they are **not able to satisfy the need of people**.

• 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.

• Violation of rule by general public

Many people are entering ATMs and **using 3-4 different ATM cards and withdrawing 4X cash** than the prescribed limit for one person, thus violating the limit prescribed by the government.

III. STATEMENT OF THE PROBLEM

The Modi government's demonetization move has had an impact on several sectors. The problem is the managerial difficulty of handling long queues and the overburden of work in the next couple of days. This expectation gave rise to the government's decision of shutting down banks for public dealings for one day and instead let them deal exclusively with issues relating to deposit or exchange the demonetized currency notes. This move caused inconvenience to the common man. As, ATMs will not operable on 9th and 10th November, only 50 days are provided for exchanging and depositing notes in banks and post offices, and even though officially some emergency places like hospitals, train/bus bookings, petrol pumps, etc. are supposed to accept these invalid Old notes till 11th November midnight, in reality even these people were avoid taking these notes since petrol pumps and retail outlets will have to keep a record of every single transaction involving these notes.

Objectives of the study:

- To analyze the current the immediate impact of demonetization on Indian economy.
- To understand the steps to eliminate black money in India.

Scope of the study:

There is no doubt that demonetization is a great move for a better future of India and its economy. It will definitely influence many more shoppers to start using plastic money in the long-term. Already, malls are accepting credit/ debit cards and eWallets during big sales.

Limitations of the study:

The study is limited to the extent of urban area only. This paper focuses on general public of Bangalore South.

IV. MATERIALS & METHODS

Research Type – Empirical Research

Sampling Technique – Purposive / Convenient Sampling

Sample Size – 100 respondents from Bangalore.

The data is collected through primary as well as secondary sources. Primary data is collected by observation, personal discussions with the peer group, personal experiences and through questionnaires. Secondary data collection includes news reports and online sources. Statistical tools such as simple percentage, cross tabulation etc. have been used.

V. RESULTS AND DISCUSSIONS

1. 75% of the respondents say it was a good move by Modi Government regarding Currency ban to eradicate black money but it would have been successful when planned better. 25% of respondents say yes it was a good move.
2. 60% of the respondents agree that ban will bring an end to black money, corruption, terrorism and counterfeit notes, 20% of respondents say it will bring an end to black money remaining 20% say there is no end for black money, corruption, terrorism and counterfeit notes
3. 70% of the respondents are doubtful in improvement of quality life of common man in India. 10% completely agree with the improvement of quality life, 10% partially agree with the improvement of quality life remaining 10% disagreed for the same.
4. 70% of the respondents did not mind about the inconvenience caused to them due to demonetization whereas 20% of the respondents have stated that it caused inconvenience to them. 10% of the respondents say it did not cause any inconvenience to them.
5. 90% of the respondents stated that only sometimes the ATM's were stocked with cash, 10% say there was no stock in ATM's and 10% say ATM's were stocked with cash.
6. 50% of the respondents have faced personal crisis due to limited cash circulation, 40% of the respondents have sometimes faced personal crisis due to limited cash circulation and 10% have not faced any personal crisis for the same.
7. 80% of the respondents have spent 1-3 hours at banks to exchange the old currency notes whereas 20% have not visited banks for exchange.
8. 50% of the respondents have spent 30 minutes to 01 hour at ATM's to withdraw cash whereas 50% of the respondents have spent 1-3 hours at ATM's to withdraw cash.
9. 50% of the respondents are satisfied with the workforce of the Banks in exchange of old currency notes whereas 50% are neutral with the workforce of the Banks in exchange of old currency notes.
10. 90% of the respondents faced difficulty in using new Rs 2000 notes because there was no change available. 10% of the respondents say they did not face any difficulty in using new Rs 2000 notes in the market.
11. 50% of the respondents were able to withdraw sufficient Rs 100 notes during Demonetization, 20% say sometimes they were able to withdraw and 30% say they were not able to withdraw sufficient Rs 100 notes during Demonetization.
12. 40% of the respondents thought withdrawal limit of Rs 2500 per day from ATM machine should have been much higher, 40% of the respondents thought withdrawal limit of Rs 2500 per day from ATM machine should have been higher, 20% of the respondents were fine with the limit.
13. 70% of the respondents say Yes the currency ban has affected all the classes of people equally where 30% say it is not affected the higher class of income groups.
14. 70% of the respondents think paperless transactions is a good move to avoid black money. 30% of the respondents stated that paperless transactions is not a good move to avoid black money.
15. 90% of the respondents stated that paperless transactions were safe during demonetization, 10% say it is not safe due to hackers.
16. 90% of the respondents think common people were affected majorly in regard to consumption, 10% of the respondents say common people were not affected in regard to consumption.
17. 70% of the respondents accept the fact that people of the nation should use digital banking to eradicate black money, 30% of the

respondents say it doesn't make much effect in regard to digital banking to eradicate black money.

VI. CONCLUSIONS

In our study most of the respondents felt that banning of 500 and 1000 notes will bring an end to black money, corruption, terrorism, counterfeit notes but better planning was needed by Modi Government to completely demolish black money. People of the nation also felt that Demonetization will improve the quality of work life though they did not mind the inconvenience caused to them due to limited cash transactions and time spent at banks/ATM's for hours together.

Though people of the nation accept digital banking to eradicate black money but the fact is most of the people in our country are illiterates, below poverty line, senior citizens cannot use digital banking and nowadays literates are scared to use digital banking due to hacking. Therefore both cash and digital transactions should go simultaneously.

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