

# Demonetization-Impact of Startling Alteration of Indian Currency

Somnath Mukhuti

Lecturer

Department of Commerce,  
Azad Hind Fouz Smriti Mahavidyalaya  
Domjur, Howrah, West Bengal, India

**Abstract:** On November 8, 2016, government has announced a major change by demonetising the high value currency notes of Rs.500 and Rs.1000 denomination to stop corruption and huge circulating black money. The main objectives of this present research work are the positive and negative impact of demonetisation on GDP, banking sectors and agriculture sector. This study is theoretical in nature and based on completely secondary data obtained from various appropriate research journals, books and newspapers. After the study, it is confirmed that demonetisation effects on different sectors mainly small and medium sectors, agricultural production, construction of buildings, banking and financial sectors and also countries GDP. After demonetisation people are waiting for a much better in future.

**Keywords:** Introduction, Black money, Demonetisation, Agriculture, Banking, Indian economy.

## I. INTRODUCTION

On November 8, 2016, the Government of India declared that the two major currencies, Rs.500 and Rs.1000 notes would stop from the midnight. It was one of the biggest actions by the Government of India announced near about one hour speech. While lower price denomination i.e. all other currency notes and all coins would continue to be legal, Government of India said and it was also declared that fresh and completely new notes of Rs.200, Rs.500 will be issued and of Rs.2000 currency note introduced. According to Hashmukh Adhia, revenue secretary, 'This is the biggest and the boldest step by the government for containing black money. It is like a surgical strike of Indian Government on black money'. Actually, India has been raise in the false and black currency notes of higher denomination circulated widely. The currency notes of high denominations are used in those days by fraudulent peoples and also terrorist and to hoard the black money into our country. Indian economy mainly based on cash based. So, to control the increase in black money, the biggest reform as well as scheme has been introduced by the government of India. According to Niranjana Hiranandani, CMD, Hiranandani Developers, 'It is a fantastic move and quite a radical one. For the real estate sector, we believe it will wipe out murky transactions.'

### 1.1 HISTORY OF DEMONETISATION IN INDIA

Unanticipated change of Indian currency decision has mainly three main objectives i.e. disclose hoarded cash, collect taxes from this cash and stop huge circulation of black money. In 1946, the currency note of Rs 1,000 and Rs 10,000 were removed from circulation. The note alteration actually did not have a large amount of impact, as the cash of such high denomination did not easy to get to the common people. However, both the notes were reintroduced in 1954 with another beginning of Rs.5000, Rs.1000 and Rs.500 notes were introduced in the year 1934 and subsequent to 4 years in 1938, Rs.10000 notes were introduced.

In the year 1978, the then Prime Minister of India Morarji Desai announced the currency ban taking Rs 1000, Rs 5000 and Rs 10,000 out of circulation. The sole aim of the ban was to curb black money generation in the country. There were very big similarities in 1978 and 2016 currency change scheme. At the time of Morarji Desai was also aimed to make away black money out of circulation in the economy. Consequently, the High Denomination Bank Notes (Demonetisation) Act was implemented. On the other hand, Narendra Modi announced the currency ban is an address that was transmitted across every news channels. In the same way, Morarji Desai declared this issues over the radio after which the banks were closed the subsequent daytime and both the matters were kept fully confidential (The Free Press Journal).

### 1.2 DEMONETIZATION: INTERNATIONAL EVIDENCE

It is not new policy to India or to the outside world. Various countries in the world have decided to altered currency notes in flow, rendering maximum amount of currency ineffective overnights, due to overabundance of reasons. On the other hand, outside countries in the world, in 1969 USA, Britain 1971, Nigeria 1984, Ghana 1982, Myanmar 1987, Soviet Russia 1991, Australia 1996, North Korea 2010, Zimbabwe 2010, Pakistan 2015 and Philippines 2016. As a result, economy collapsed, the economic system of USSR was essentially crushed and people turned to foreign currency. But the demonetization decision of Australia and USA was successful.

### 1.3 ADVANTAGES AND DISADVANTAGES OF DEMONETISATION

The false Indian currency notes in higher denomination have increased. Unlimited and unaccounted money has been used in any form of corruption and illegal activities. There are many more advantages and needs are important for demonetisation policy. Getting fake currency out of circulation, controlling countries inflation rate, tax collection, move to digital currency, improved deposits and savings in financial institutions, stopping fraudsters, reducing illegal activities, growth in a country's GDP, introducing new bank notes, to measure of good governance practices and reduction of lending rates. Demonetization is not all

advantageous. Slight cash in circulation, many difficulties and discontentment to the public, reduce speed in economic growth, to consequence in fear between a part of the population, an opportunity for fraud and corruption, disturbance to operate employment and business, big troubles with paying bills, ATMs have to be re-adjust and temporary financial crisis for poor people.

## II. NEED AND SCOPE OF THE STUDY

At the moment, after announcement the issues of demonetization by the government of India have taken necessary actions for people and try to stop circulating fake Indian currency notes, corruption and illegal activities and this study will helpful for the people, small and medium business and all the consumers. From this research work, Indian government and others can be able to identify on the future situations of the economy.

## III. REVIEW OF LITERATURE

Many authors related to demonetization issue have been discussed in different ways. The authors pointed out regarding demonetization impact and issues in a very short time. Alvares (2009) discussed the problems regarding fake currency in India. Das and Agarwal (2010) illustrated in their study about the roadmap of cashless payment system in India. Sarkar (2010) conducted a study on the parallel economy in India and its causes and impacts in which the researcher focused on the existence of causes and impacts of black money in India.

Jeniffer et al. (2017) considered the perspective analysis about the implications of demonetization and currency constraints on Indian tourism. They studied about demonetization effect on tourism industry and economic impacts. Kumar (2017) illustrated that the demonetisation impact on employment in India. Beyes and Bhattacharya (2017) have concluded on their research work regarding India's demonetisation. They mainly discussed on innovation in anti-corruption policies. And others so many literatures have already been studied. Bansal (2017) examined the impact of demonetization on GDP and different sectors of economy. Jangid (2017) assessed the impact of demonetization on Indian Economy. Kohli and Ramakumar. (2017) examined the economic rationale of demonetisation.

Dasgupta (2016) observed the theoretical analysis of demonetisation. Ghandy (2016) demonetisation one step forward, two steps back. Kumar (2017) looked at the economic consequences of demonetisation money supply and economic structure. Kavitha, et al (2017) illustrated the impact of demonetization in Indian economy. Both primary and secondary data collection methods had been used to study the objectives. This study concluded that the demonetisation requirements to be completed something to stop reappearance of black money and parallel economy.

Nithin and Sharmila (2016) observed the demonetisation and its impact of Indian economy. Uke (2017) showed that the demonetisation and its impact in Indian economy. Muthulakshmi (\*\*\*) examined the issues and challenges of demonetization impact on economy and Muthulakshmi and Kalaimani (\*\*\*) critically discussed the impact of demonetization. Reserve Bank of India (2017) demonstrated the preliminary assessment of macroeconomic impact of demonetisation. Shirley (2017) studied about the impact of demonetization in India. In this study, the BSE-SENSEX and NSE-NIFTY stock index had been go down near about 6 percent on next day. The main objectives of this research work are to identify with the impact of demonetization on the economy as well as to recognise the effect on different industries and banking and financial sector.

## IV. GAP OF LITERATURE

Maximum number of research work has been carried out related to issues and challenges of demonetization, effect of alteration of Indian currency, positive and negative impact of demonetization and impact on employment and household. Similarly, maximum number of study related to blow of demonetization on countries GDP, stop reappearance of black money and parallel economy and currency constraints on Indian tourism sectors. These all are based on secondary data. A very few number of study has carried out related to primary data and a small number of study has carried out related to banking, household, stock market, import export with statistical analysis and interpretations.

## V. OBJECTIVES OF THE STUDY

In this research work, the main objectives are the positive and negative impact of currency alteration on Indian economy. The following objectives has discussed in this study.

1. To discuss the positive and negative impact of demonetization on Indian economy.
2. To examine the impact of demonetization on GDP in Indian economy.
3. To know about the demonetization impact on banking sectors in India.
4. To know about the impact of demonetization on agriculture Sector.

## VI. RESEARCH METHODOLOGY

The study is completely based on secondary data and information obtained from different books, journals, newspapers and appropriate websites. This study is completely theoretical in nature. Some images, graph, charts and diagrams related to demonetization used in this study.

## VII. THEORETICAL DISCUSSIONS

### 7.1 Positive and Negative Impact on Indian Economy

Maximum politicians and other people who are involved directly or indirectly in politics, some economists and businessman asked each of these areas have received tremendously positive effect due to demonetisation over black money. It is estimated the total amount of black money is Rs.3 lakh crore and the total money circulation in the market is just only Rs.17 lakh crore (Singh, 2016). According to Indian Statistical Institute, the circulation of the total amount of fake currency in India is Rs.400 crore at any

given point of time. It is also estimated that around Rs 70 crore fake currencies are being introduced into India every year. Other problems are over bank deposits, over lending rates, over real estate cleansing, over Hawala transactions, over financial inclusion, over government finances. World Bank said that Demonetisation will have positive impact in long term. On the other hand, many people who belong to medium class family, many businessmen, shopkeepers, building owners and others said that each of these areas have received extremely negative effect due to demonetisation and bad impact on SMEs, small traders, real estate, transport sector, consumer durable goods industry, banks were flooded, decline in GDP, service sector boomed and recession, many people died and corruption in banks. The annual report of Reserve Bank of India suggested that the currency note ban was a lot of trouble for very small gain as 99% of demonetised currency notes came back.

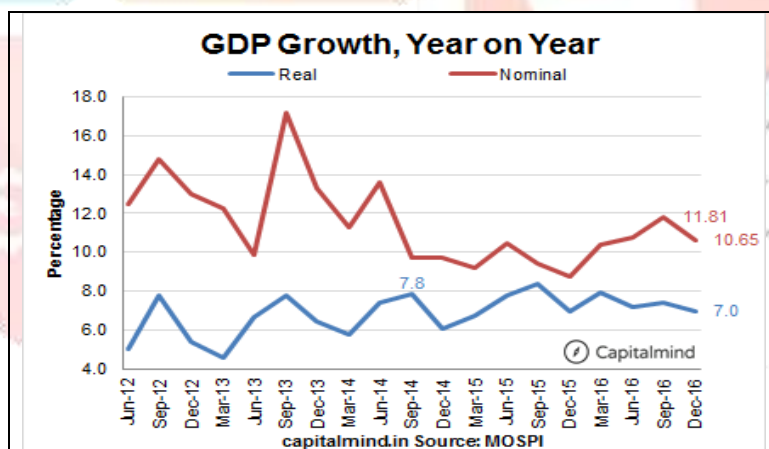
**Sectoral Impact of Demonetisation**

Top Eight Sectors	Positive or Negative Impact
Auto and Auto Ancillary sector	Negative
Commodity and Consumption	Neutral
Banking sector	Marginally Positive
NBFC and Finance	Mixed – Divergent across Segments
Hospitality	Negative
Infrastructure related sectors	Negative
Oil and Natural Gas	Neutral
Real Estate sector	Negative

Source: Manohar Chowdhry & Associates, Chartered Accountants

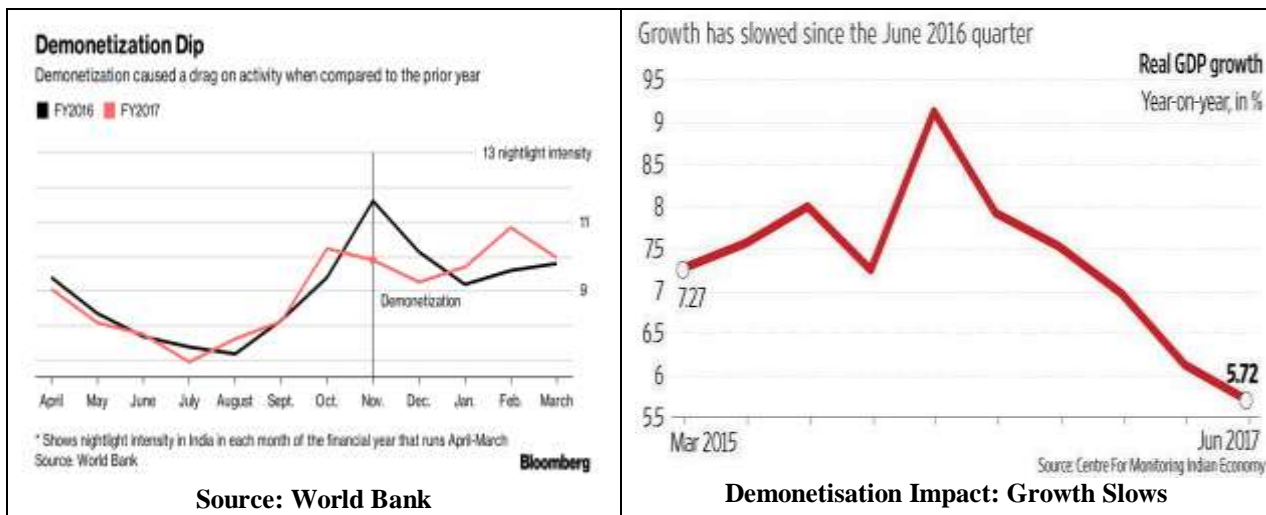
**7.2 Impact of Demonetisation on GDP**

At the time of demonetization the two largest and most circulated i.e. Rs.500 and Rs.1000 notes were taken out of the currency circulation system. In detail, two largest denominations represented 86% of the currency of India. It shows that it was going to negatively and adversely affect on GDP growth rates. Mainly, Indian economy is mainly cash related and demonetisation has largely affected its growth. The GDP growth rate was 8% in 2015 and slow down to its growth percentage 7% or near about 7.1% in the end of 2016 after demonetisation. It was largely affected due to shortage or unavailability of liquid cash in cash transaction related business and industries mainly goods manufacturing and building construction companies. It has negatively affected the basic and daily transactions of banks to sanction and disburse loans, withdraw of cash from ATMs of different banks and requirement of large number of cash when the withdrawal limit was daily Rs.2000.



GDP GROWTH AT A SURPRISING 7%

In macroeconomic scenario, after demonetisation different sectors has affected i.e. agriculture rose 2.1% in financial year 2018 against 4.9% in 2017, industry grew 4.4% against 5.6%, services up by 8.3% against 7.7%, private final consumption expenditure, denoting demand, rose 6.3% against 8.7%, gross fixed capital formation, representing investment, moved up by 4.5% against 2.4%, the government final consumption expenditure increased by 8.5% against 20.8%.



### 7.3 Impact of Demonetisation on Banking Sectors

According to C.H. Venkatachalam, General Secretary of the All India Bank Employees' Association (AIBEA), the complete experience had left 'a large blemish in the minds of bankers'. Venkatachalam also said that a million bank employees handling more than 1000 million people coming to branches to deposit old notes was certainly a big task. The impact of demonetisation on banking sectors and a number of changes for the financial sector are mainly the 100 percent cash reserve ratio (CRR) on incremental deposits intended that banks didn't make a few interest on Rs.3 lakhs crores of deposits. The rejection of ATM charges would effect in banks losing near about Rs.20 in each and every transaction and trader discount rate on cards would consequences in banks losing 1 percent in every card transaction. Some small and medium enterprises have observed their turnover drop 50 to 80 percent and defaulter in their payment of instalments. In early days, ATM limit of withdrawal up to Rs.2000 per day, but which were revised had withdrawal limit up to Rs.2500 per day which provisions was mandatory for all areas in India. Again, special provisions for farmers & traders to buying agricultural products, farmers can be allowed to withdraw up to Rs.25000 per week in cash. Families celebrating their weddings can be allowed to withdraw up to Rs.250000 in cash from their own bank accounts. Demonetisation has a significant impact on different stages and major changes in financial sectors i.e. shift in currency demand, significant growth in bank deposits, greater financial inclusion, detection of suspicious transactions, improved monetary transmission, increase in mutual fund investments by households, higher collections under life insurance schemes, accelerated digitisation of retail payments, higher rate of detection of fake Indian currency notes etc.

### 7.4 Impact of Demonetization on Agriculture Sector

As per 2011 census, agriculture sectors play a very important role in India's economy. Actually, 54.6% of the population is engaged in agricultural and food production and allied activities. So, an agricultural sector has also affected due to unexpected decision to alteration of the major currencies mainly medium and small farmers. Agricultural growth in India was 0.2% during 2014-15 and 1.2% in 2015-16. As per CRISIL report, it was expected to grow 4% in this year but due to demonetization issue, this prediction is established wrong for the reason of farmers are running out of ready money or cash to buy seeds, fertilizers, equipments and payment of wages to workers etc. Due to daily shortage or deficit of cash and payment of transportation cost, it was not possible to proper supply of seeds, fertilizers, equipments etc. Ultimately, as a result, in near about 25 percent to 50 percent turn down in sales and it was the big impact on agricultural production. As maximum farmers are not proper educated, therefore, due to cashless policy, it was a very big problem to work on e-payment system. In those days, Reserve Bank of India said that, more than 78% of the population in India do not use internet in which almost 80 to 85 % are farmers and where the maximum villages has no proper banking system and farmers as well as villagers are need to go to the near city towns because of that farmers maximum time is engaged in changing the old currency notes in their respective banks. Finally, definitely it was a significant impact of demonetisation on agricultural sector in India.

## VIII. STUDY CONCLUSION

The objectives of the present research work shows that four major area of Indian economy i.e. the positive and negative impact of demonetisation on Indian economy, effect on GDP, banking sectors and agriculture Sector. People have suffered a lot and all those effects are solved when the new and fresh currency notes are broadly distributed in the economy. So, I think that demonetisation was a very good decision and historical step, but if government successfully clears all the problems of people. Now after demonetisation we can wait for a much better in future. After study of demonetisation, the following questions raised for the year 2017 and 2018. These are:

- Was demonetisation a planned move of the government?
- What was the impact of demonetisation in 2017 and 2018 on Indian business sector?
- What could be the next step of Government after demonetisation?
- Should demonetisation be accompanied with tax reforms to stop future generation of black money?

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