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## A STUDY ON IMPACT OF DEMONETIZATION ON INDIAN

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### ABSTRACT

The Indian government took a bold step by demonetising high-value currency denominations such as the Rs 500 and Rs 1,000 notes. Demonetization refers to the removal of a currency from circulation and its replacement with a new currency. It has had a significant impact on the Indian economy in several ways. However, it has been universally praised as a positive choice made for the public' welfare. This article examines the economic implications of this decision in India.

### INTRODUCTION

Over the last five years, the Indian government has launched a number of programmes aimed at countering money laundering, terrorism financing, and the proliferation of counterfeit cash. The following are included in this list:

A Special Investigation Team should be formed (SIT)

Black Money (Undisclosed Foreign Income and Assets) Act, 2015 – Implementation. The GOI provided a compliance window of 90 days during which a person might declare any overseas assets they had not previously revealed.

In order to promote "financial inclusion," the Pradhan Mantri Jan Dhan Yojana (PMJDY) initiative mandates the registration of "payment banks"/"mobile wallets."

- Using Aadhar to link bank accounts and receive government subsidies
- Requiring all bank account information to be disclosed in tax returns

Income disclosure schemes (IDS) were implemented in 2016

Finally, here's the most recent measure:

Overnight, 86% of Indian money and 13% of GDP were frozen as a result of demonetization.

The GOI has revoked the legal tender status of all existing and previous series banknotes in the denominations of Rs. 500 and Rs. 1000, effective immediately as of November 9, 2016. Demonetization of the Rs 500 and Rs 1,000 currency notes announced by Prime Minister Narendra Modi has been widely regarded as a surprise and direct strike on illicit money. One of the government's most daring initiatives to date, demonetization will have wide-ranging effects.

Move likely to reduce immediate demand, notably of high-end goods but to have a positive effect on growth and inflation in future years and decades.. The GDP of the country is projected to increase as a result of this merging of the parallel and mainline economies. It will also assist the government increase tax collection and reduce the fiscal deficit and debt to GDP ratios by expanding the numerator.

Microfinance, real estate, construction, jewellery, high-end retail, and travel and tourism sectors are projected to be negatively impacted in the short term.



## History

In both 1946 and 1978, the Indian government demonetized bank notes in an effort to prevent tax fraud by "black money" maintained outside the regular economic system, which the government viewed as a threat to national security. It was thought that the pre-independence government's plan to demonetize in 1946 would penalise Indian enterprises that had earned riches assisting the Allies during World War II. To combat counterfeit money and black money, the government of the Janta Party alliance in 1978 demonetized banknotes of 1000, 5000 and 10,000 rupees.

A report by the Central Board of Direct Taxes in 2012 stated that demonetization should be avoided "Black money and the economy are often held in benami properties, bullion, and jewellery, and demonetization may not be the answer. There is evidence that just 6% of the wealth of black money holders is in cash, which suggests that targeting this cash would not be a good approach.

The entire value of Indian banknotes in circulation on October 28th, 2016, was Rs. 17,77 trillion. RBI's 31 March 2016 annual report said that the total value of bank notes in circulation was 16.42 trillion, with approximately 86% (around \$14.18 trillion) consisting of 500 and 1,000 banknotes. It was estimated in the research that 24 percent of the 90266 million (9026.6 crore) banknotes were in circulation.

Demonetization was resisted by the Bharatiya Janata Party (BJP) in the past. the party's spokesman MeenakshiLekhi had remarked in 2014 "Such measures will target the aamaurats and the aadmis (the general populace), who are illiterate and lack access to financial services.

In June, the Indian government developed the Income Declaration Scheme, which ran from June 30 to September 30 and allowed citizens with black money and undeclared assets to avoid litigation and come clean by declaring their assets, paying tax on them, and paying a penalty of 45 percent afterward.

## **OBJECTIVES OF THE STUDY**

□ The fundamental goal of this study is to have a comprehensive understanding of the Indian economy.

To gain a thorough understanding of the issues and challenges involved.

o To learn about the present market conditions.

o The impact on the Indian economy as a whole.

Because of these changes, the Indian economy is facing difficulties.

o To gain a practical understanding of how much money is worth.

## **LITERTURE REVIEW**

The following is a list of three national or international studies on this subject:

1. The journal of research is an international journal (published by edupedia publication pvt.ltd)

Two. "Black Money" and India's Demonetization Project (Prominent Citizens Question the Delhi Government's Intentions)

The impact of demonization on the economy (by RBI).

The Reserve Bank of India's Monetary Policy Department (MPD) and other Reserve Bank divisions contributed to this research. Reserve Bank of India does not necessarily endorse the findings, perspectives, or conclusions presented in this article.

Uncertainty and rapid change characterise the Indian economy. Both the internal and external surroundings have an impact on it. Especially in terms of the political climate. The entire Indian economy can be affected by a single political party's decision in a single day. On November 8, 2016, Indian Prime Minister "MR. NARENDRA DAS MODI" declared demonetization. Our stock market, retail market, and day-to-day business aren't the only things it affects in India. Demonetization is generally well-received by Indians, as evidenced by a literature assessment I conducted with the support of RBI and this social media site. Foreigners, as well as Indians, are responding enthusiastically to it. Due to a lack of prior experience, the implementation of these plans is fraught with difficulties.

## **RESEARCH METHDOLOGY**

**In order to carry out research, a methodology must be established that outlines the goals of the study, how it will be conducted, and how it will be measured.**

**Researchers collect and analyse data to better understand a subject or issue through a series of stages called a research protocol.**

### **Objectives of research**

General rules and generalisations are established and tested by research. Research analyses inter-relationships. Applied research attempts to uncover solutions and build tools, concepts, and methodologies.

## **ANALYSIS**

What is the Parallel Economy?— An alternate word for the "dark economy" is "parallel economy". In the words of Schneider & Este, "It includes all unregistered economic activities that go unreported and contribute to officially calculated GNP( Gross national product)." Over the past few decades, India has lost hundreds of millions of dollars to black money and ranks among the top five countries in the world exporting it. The black economy in India is thought to be worth around \$439.59 billion. The film business, illicit imports and exports, opinion polls, and sports are the primary sources of this content. Since 2011, the total number of banknotes in circulation increased by 40%; the rise in the number of Rs.500/- notes was 76%; and the growth in the number of Rs.1,000/- notes was 109% throughout this period. Black money is estimated to be as high as 30 percent of GDP, or around Rs 28 lakhs crore, at this time.Ø The Solution To Parallel Economy: Demonetization of currency:-

Demonetization of currency is a revert to unaccounted funds. It is the process of removing a currency's legal tender status. A legal tender is a form of money that has been approved by the government and can be used to pay for any kind of debt. Consequently, it reduces the amount of black money in circulation in the economy.

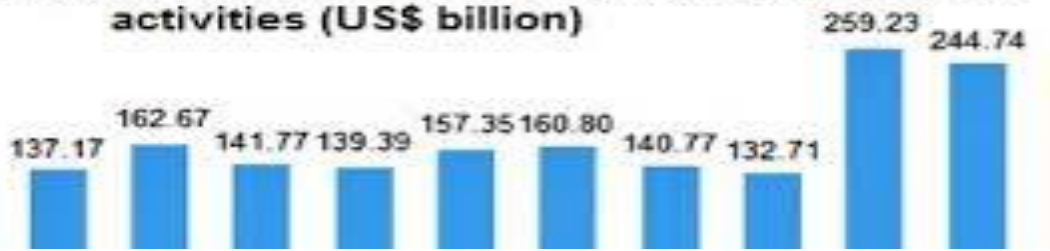
### **FRAMEWORK OF DEMONETIZATION:-**

Through this attempt, the government has tried to tackle three issues affecting the parallel economy, money counterfeiting, and terrorist financing. Anil Bokil, a 55-year-old Pune mechanical engineer and Arthakraanti member, gave the PM the idea for the present demonetization. Ten months before the actual demonetization, the planning process had already begun. Meanwhile, while preparations for the event continued, the following steps were taken:

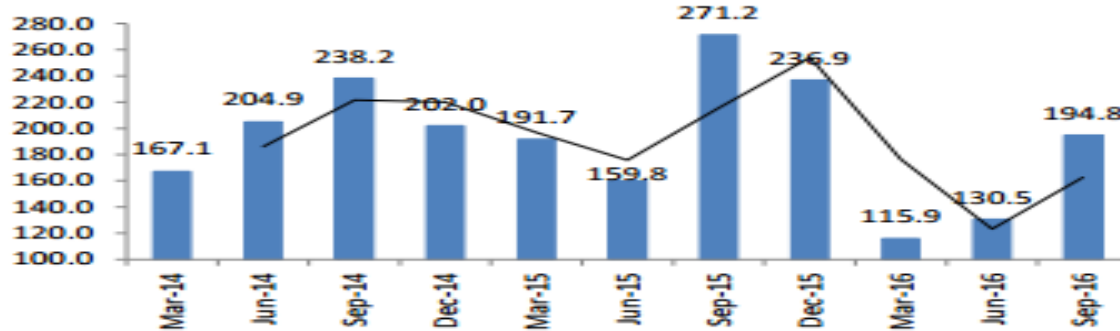
The Jan-DhanYojna was used to open the accounts.

A bank account was created for each Adhaar Card holder.

**GDP by value added – size of agriculture and allied activities (US\$ billion)**



**Indian consumer demand in Tonnes**



Source: World Gold Council, Angel Commodity Research

**FINDINGS**

**50 Days : The Results From India's Demonetization Campaign Are In**

President-elect Trump's inauguration was followed by a statement that rocked the nation of India. Instead of a disruptive, unconventional presidential candidate, their vision was of a disruptive new policy that will immediately affect the lives of 1.25 billion people, rich and poor. All 500 and 1,000 rupee notes — 86 percent of the currency in circulation — would no longer be legal tender at midnight on November 8th, India's Prime Minister Narendra Modi stated at 10 p.m. In order to demolish the underground market for cash, purge the country of counterfeit notes, accelerate the digitization of the economy, and bring a larger portion of the people onto the legal, taxed economic grid, Modi's demonetization move was a "shock doctrine" technique.



There are long lines at a bank in New Delhi on Thursday morning as people try to withdraw money from their accounts.

India, the world's most cash-dependent nation, unexpectedly found itself without enough money to operate its economy when Prime Minister Narendra Modi's plan to replace the invalidated notes with fresh 500 and 2,000 denomination notes failed.

On November 8th, the clock struck midnight, and a large swath of Indian society was suddenly unable to conduct business. Most transactions in India were done with cash up to that moment, and 90% of vendors were unable to take any other payment method. Additionally, 85 percent of workers were paid in cash and nearly half of the population did not have a bank account, making the situation even more difficult. Even Uber was willing to accept cash.

This financial constraint brought India to a standstill. It was a complete shutdown of businesses, farmers couldn't buy seeds, taxi and rickshaw drivers couldn't accept payments, employers couldn't pay their employees, hospitals were refusing patients who only had old banknotes, fishermen watched their catch rot, some families couldn't afford food, and weddings across the country were cancelled.

After 50 days, all of India's invalidated banknotes will be worthless as the paper they were printed on, resulting in a rush to banks, jewellery shops, foreign exchange counters, and ATMs by hundreds of millions of people. People would wait for hours in serpentine lines outside of these businesses to re-validate their fortune.

It came to an end on Friday, December 30th, when the central bank reclaimed practically all of the remaining stock of 500 and 1,000 rupee notes. Demonetization in India is not yet complete. Indians are adjusting to life after demonetization, even if currency supply hasn't been fully restored and cash is still being rationed (there are severe bank withdrawal restrictions of 24,000 rupees a week (\$350) or 2,500 rupees (\$36) from ATMs).

Is it working, though?

## **Fighting corruption**

Demonetization was initially presented by Modi as a means of combating corruption. If the country's black market had been unable to trade or deposit their illegally gained wealth, the central bank could have received a payday estimated to be as high as \$45 billion. However, this was not the case. In spite of rigorous laws to audit huge deposits and limit the number of banknotes that might be exchanged at one time, India's shadow economy was able to unload their black money, often laundering it gleaming white in the process.

According to recent reports that have surfaced, the black market used a variety of methods to accomplish this, including everything from using fictitious bank accounts to engaging in illegal money exchanges with corrupt financial institutions and even physically threatening employees if they don't participate in these extra-curricular exchanges.

S Kumar Singh, a commenter on an earlier piece of mine on Forbes.com, made the following comment about India's demonetization initiative:

This reminds me of a story from the Panchatantra.

A man with noble intentions started pumping water out of a pond to get the crocodiles out. In spite of the fact that they were forced to breathe 85 percent less water, the small fish in the water were joyful because they were confident that he would catch the crocodiles and that the rain cycle had been changed. As far as we can tell, crocodiles don't seem to mind living on land and waiting for the next rains.

Who's going to tell the fish this news now? Nothing like this sincere crook who has never once said he was wrong and may be considering burning trees to remove the bat virus as his next step.

## **Fighting counterfeiting**

After the demonetization effort, another declared goal of Modi was to reduce the use of counterfeit currency. Previously, 250 out of every million Indian banknotes were said to be false, with Pakistan being blamed for the majority of these counterfeits, which are believed to be government-directed printing mills. There was an immediate purge of counterfeit 500 and 2,000 rupee banknotes since the new notes have a different design and are of a different size than the old ones.

Is altering banknotes an effective way to fight counterfeiting at first, but how long will it last? The newly minted Indian rupees are expected to be difficult or impossible to counterfeit, depending on the source. Time will tell which is correct.



## How Will Demonetization Affect Business in India in 2017?

We're still working on it. However, whether or not these occurrences constitute "development" in India's economic landscape is questionable. There's one that isn't: Ratan Tata's return as interim chairman after Cyrus Mistry was ousted as chairman of the Tata group. There's a lot of nasty laundry being out in the open, obscuring some of the political accusations that are being made elsewhere.

The second is the goods and services tax (GST), which aims to replace all taxes imposed by the federal and state governments with a single central tax. GST is expected to be implemented by April or, at the earliest, by September. Despite the fact that the measure has been passed by both chambers of Parliament and the President, a GST Council is currently arguing over the finer points, which could delay its implementation.

Amit Mitra, the West Bengal finance minister and head of the empowered committee of state finance ministers, argues that "the timing is not appropriate" for implementation to take place. He blames the government's decision to demonetize Rs500 (\$7.4) and





### **How has the Opposition reacted to demonetisation?**

It's been over two weeks since the government announced that the Rs.500 and Rs.1000 notes would be demonetized in what was hailed as an unprecedentedly bold attempt to combat black money. Opposition parties have wasted no time in slamming the administration as the hard reality of long lineups and even deaths sinks in.

### **DISCUSSION**

Since the decision to ban high-value currency notes was made in early

November, the administration has attempted to promote the note ban's positive aspects and long-term economic benefits. The decision to ban high-value notes was made in order to eliminate black money and counterfeit notes from the economy, which had

been deeply embedded for decades. The administration intends to keep a tight grip on the corruption front, having removed 86 percent of total money circulation from the system.

According to a forecast by Ambit Capital, India's informal economy could decrease from 40% to 20%, while the legal organised sector will gain market share. People will be less likely to park their savings in tangible assets like gold and real estate as a result of the ongoing crackdown on illicit money, which will instead increase the flow of funds into the financial system. The cost of debt capital in India should decline as a result of the increase in financial savings. Furthermore, when the savings rate rises, lending rates are likely to follow suit. The cost of debt capital in India should decline as a result of the increase in financial savings. Furthermore, when the savings rate rises, lending rates are likely to follow suit. The government has been pushing for a cashless economy and encouraging more individuals to use the digital payment system for their transactions through the demonetisation drive. People using smartphones are encouraged to utilise the United Payments Interface (UPI) app to conduct cashless transactions. Apart from banks, online wallet businesses such as Paytm, Mobikwik, and Free-Charge are pushing their online products and enticing people to abandon cash transactions. According to predictions, home prices in 42 major cities across India could drop by up to 30% in the next 6-12 months as a result of demonetisation. Although several benefits of demonetisation sweeping the economy may seem far-fetched, the economy is already

facing urgent hurdles. The government's lack of preparedness to deal with cash availability following the decision to eliminate currency notes has affected the average man particularly hard. Despite the government's assurances that cash availability will improve on a daily basis. Several banks and ATMs around the country are still only dispensing small amounts of cash. People in countryside and semi-urban

People are in full turmoil as a result of

areas are the hardest effected, as cash is used for the majority of transactions. the government's continuous flip-flops on withdrawal and deposit limitations at bank offices and ATMs. The sitPeople are in full turmoil as a result of the government's continuous flip-flops on withdrawal and deposit limitations at bank offices and ATMs. implemented, as banks continue to confro. The situation does not appear to be totally remedied one month after the note ban was implemented, as banks continue to confront cash shortages. The impact on the country's economic growth is the most serious threat posed by demonetisation. Construction and associated sectors, jewellery, textiles, and real estate are some sectors where employment losses are anticipated, if not already occurring, according to brokerage Amhit Capital. Similarly, because they are daily wage workers, 20-25 percent of the roughly 2.5 lakh workers in the leather business have been negatively affected. Because 90 percent of the units are small and medium businesses, the industry has been impacted particularly hard. In the jewellery industry, 15-20 percent of daily-paid employees have been

affected. A virtual shutdown of India's informal sector, according to economists, might signal doom for employment. The 7.31 percent growth rate in July-September fell short of economists' expectations. The Reserve Bank of India trimmed its growth prediction for the current fiscal year to 7.1 percent from 7.6 percent the day before in its policy announcement. Demonetisation has advantages and disadvantages, just

like a coin.

#### ADVANTAGE

Demonetisation helped the authorities monitor black money, which was a big benefit. Tax evaders kept large sums of illicit money hidden. The authorities was able to discover a large amount of undeclared cash because to Demonetisation. People have deposited more than rupees 3 lakh crores worth of illegal money in bank accounts, according to RBL estimates. This has aided the government in curbing the parallel economy's spread.

Demonetisation was prompted by the

fact that a large portion of black money was being used to fuel terrorism, gambling, and inflate the price of major asset classes such as real estate and gold, among other social evils. Demonetisation has shown to be an effective deterrent to such actions. Now, all such operations will be curtailed for a while, and it will take years for people to generate that amount of black money again, putting an end to the cycle of people engaging in unlawful actions in order to earn black money, which they then use to engage in additional illegal activities. Another benefit is that the government receives a large amount of tax revenue as a result of people disclosing their income by depositing money in their bank accounts. This money can be used to improve society by providing good infrastructure, hospitals, educational institutions, roads, and other services to the poor and needy.

## DISADVANTAGE

The greatest disadvantage of demonetisation was the immediate turmoil and fury it caused among ordinary people. Everyone was hurrying to get rid of demonetised notes, while the lack of new notes had an impact on citizens' daily finances. Long lines formed at banks and ATMs, and small firms experienced temporary cash losses. The situation was considerably worse in rural India, where residents struggled to convert and withdraw money due to a shortage of banks and ATMs in the area. Another downside is that the destruction of old currency units and the creation of new currency units come at a cost to the government, and if the costs outweigh the benefits, demonetisation is pointless. Another issue is that while this move was intended to target black money, many people kept cash as their black money and rotated or used it in other asset classes unaffected by demonetisation, such as real estate, gold, and so on.

## CONCLUSION

According to the evidence that has been gathered so far, the impact of demonetisation on the actual economy has been temporary. There is evidence in this study that demonetization had a negative impact on numerous economic sectors, however it had a short-lived impact in general because it was felt mostly between November and December 2016. By mid-February 2017, the impact had largely subsided, indicating an increased pace of de-monetisation. In the third quarter of 2016-17, the impact on GVA increase was felt, albeit modestly. A major portion of the organised sector held up well. According to the latest CSO estimates, the impact of demonetisation on GVA growth in the third quarter of 2016-17 was felt mostly in real estate and construction, but the overall impact on GVA growth was minimal. Because of the rapid progress of remonetisation, the negative impact should have been offset by the fourth quarter of 2016-17. In 2017-18, GVA growth is expected to rebound strongly. Between November 2016 and January 2017, food inflation dropped by 240 basis points as a result of record pulse production, huge winter vegetable arrivals, and some fire sales caused by a drop in demand following a cash crunch. However, inflation that does not include food prices has barely budged. Even without food and fuel, inflation held steady. The near-term outlook for overall inflation is highly dependent on how food inflation develops. Deposits at banks increased as a result of the reintroduction of SBNs. A substantial surplus of liquidity in the economy was created as a result of this, and the Reserve Bank of India (RBI) mostly used reverse repos and MSS securities to manage it. As a result, the asset side of banks' balance sheets saw a considerable surge in investments in government securities. Because of the abundance of liquidity, monetary policy transmission has improved significantly, as evidenced by the sharp decrease in deposit and lending interest rates. It is projected that banks' net interest income will have improved due to a substantial growth in low-cost CASA deposits. However, this must be weighed against the cost of overseeing the demonetisation process. Some NBFCs, particularly MFIs, were badly affected in terms of disbursements and collection of repayments as a result of the financial crisis. However, things began to look up for the majority of NBFCs by the end of December of last year. After demonetisation, the number of Jan Dhan accounts rose by 23.3 million, while deposits in Jan Dhan accounts rose by \$187 billion (41 per cent). Depending on which sector of the financial market you look at, demonetisation has had varying results. There was a softer skew to the overnight call money market rate because of banks' excess liquidity. G-sec rates rose sharply after the announcement of the ICRR and the status quo in monetary policy in December 2016, respectively, following an initial easing. As a result of both internal and global causes, yields have fluctuated in either direction since, including the shift in the monetary policy stance in February 2017. Cash-intensive industries such as cars, food and beverage, consumer goods, and real estate saw their stock prices fall substantially in November and December of last year. The majority of these industries have since more than made up for the ground they lost. In fact, after demonetisation, the consumer durables sector

outperformed the stock market as a whole. Temporary effects on the FX market were seen as a result of this. Some parts of the export economy, such as ready-made clothing and gems and jewellery, have been affected by the demonetization. However, the effect was just temporary. Despite a significant jump in November, gold imports dipped in December. The usage of digital ways of payment has increased significantly since the introduction of demonetization, despite a relatively limited user base. The overall macroeconomic impact of demonetisation has been negative, although this has been short-lived as remonetisation has taken off in the previous twelve weeks. Demonetisation, on the other hand, is projected to provide a long-term benefit. Increased usage of digital payments, for example, is projected to help formalise the economy. While cash usage is expected to decline, the formal financial sector is expected to play a stronger role in the economy's monetary transmission. Because of the little amount of data that has been made available after demonetisation, any conclusions on growth, in particular, should be considered tentative. Because of this, it should be possible to conduct a more thorough investigation in the following months.

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