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DEMONETIZATION AND ITS IMPACT ON INDIAN ECONOMY

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ABSTRACT

To demonetize means to remove the validity of a currency unit that is currently in circulation. The government revokes the official status of a currency it has issued as a legal form of payment. The current type or types of money are removed from use and taken out of circulation, typically to be substituted with new ones. The Indian government implemented demonetization for the third occasion on November 8th, 2016. The government made a decision to invalidate all ₹500 and ₹1,000 banknotes of the Mahatma Gandhi Series, which accounted for about 86% of the currency in circulation. The government also stated that they would release new ₹500 and ₹2,000 banknotes in return for the discontinued banknotes. They argued that this move would help decrease illegal economic activities, promote digital payments, and lessen the circulation of fake money. The main purpose of this research paper is to analyze the reasons behind and the consequences of the demonetization policy implemented in India in the year 2016. The research is focused on describing a subject and utilizes information gathered from different sources. The research states that the effects of demonetization on the Indian Economy were a combination of beneficial and detrimental outcomes.

Keywords- Demonization, tax base, tax revenue, Economic survey, corruption

INTRODUCTION

In this research article, we examine a distinctive event in the field of Indian monetary economics, which is the 2016 Indian "demonetization". This action suddenly invalidated 86% of the cash being used, while new currency notes were gradually introduced in the following months.

On November 8th, 2016, the Indian government made a sudden announcement that 86% of the currency currently being used would no longer be considered legal from midnight onward. The limitations of the printing press made it impossible to quickly replace the invalidated currency with new notes, leading to a significant reduction in the availability of cash for transactions. In addition, there was a significant difference in the rate at which new currency notes were introduced in different regions.

The process of demonetization took place in an otherwise steady macroeconomic situation, and it did not have any impact on other important aspects of monetary policy, such as the total obligations of the Reserve Bank of India (RBI) or the desired interest rate.

This was the third time a decision like this was made, the previous two times were on January 12, 1946 and January 16, 1978, but those attempts were only partially successful. It was one of several measures implemented by the government to combat illegal funds, bribery, financing terrorism, and increase the number of taxpayers and tax revenue. This action had significant impact and was implemented in order to improve the Indian economy and encourage its shift towards more organized and digital processes.

It seems that the intention behind this was to take advantage of its huge potential advantages in the near future. These advantages include reducing corruption, increasing the digitization of the economy, boosting financial savings, and promoting a more formalized economy.

There is a belief that the action was required because the currency in circulation was valued at Rs. 18.54 lakh crore, equivalent to around 12 percent of the GDP, which was exceedingly large and not able to be maintained sustainably, therefore it needed to be decreased. Additionally, a significant portion of this amount was unaccounted for and was being utilized for purchasing property and luxury items such as jewelry.

The government had an additional expectation that a significant portion of the demonetized currency would not be returned to banks. In this scenario, the liability of the Reserve Bank of India (RBI) would decrease and it would then need to provide a dividend of a similar amount to the government. This dividend could be utilized for the betterment of society through various welfare programs.

The deadline for the public to deposit old demonetized currency notes into their bank accounts was set for December 31, 2016. This allowed for the cash to no longer be anonymous. At the same time, the government introduced a new scheme called IDS-II or the Pradhan Mantri Garib Kalyan Yojana. The previous scheme, IDS-I, concluded on 30/09/16 and achieved significant success by collecting Rs 65,750 crore of undisclosed income.

The aim of IDS-II was to provide individuals with undeclared income a chance to declare their money legally. However, the tax rate for IDS-II was much higher at 50%, including a 30% tax, a 33% Pradhan Mantri Garib Kalyan cess, and a 10% penalty. This was quite high as compared to the tax rates of 30% and 45% in IDS-I.

The IDS-II was announced in conjunction with other provisions of the Taxation Laws (Second Amendment) Act, effective from September 11, 2016, and it was emphasized to the public that if they failed to report undisclosed income, they would be subjected to a higher penalty of 75%, in addition to potential prosecution for any detected black income in the future.

The government further maintained that simply depositing money into a bank account does not transform illegally obtained money into legal money. They emphasized that individuals must disclose the origins of their funds and pay taxes on any unexplained income.

LITERATURE REVIEW

The Reserve Bank of India conducted a preliminary assessment in March 2017 to determine the impact of the demonetization drive on various sectors of the economy and on the growth of GDP. The text suggests that demonetization had a significant impact on the informal sector, as well as small and medium enterprises. It resulted in a decrease in GDP growth and job creation, particularly affecting the manufacturing sector due to reduced demand.

According to the report, agriculture was additionally impacted by a lack of funds to buy seeds and fertilizers, which are essential inputs. Additionally, labor payments—which are typically made in cash—were also affected.

The report states that banks had an abundance of funds, which led to a decrease in interest rates on both deposits and loans. Additionally, financial institutions such as LIC and mutual funds greatly benefited from this initiative, as deposits increased substantially. During this time frame, there was also a rise in digital transactions, suggesting a shift towards a more structured and regulated economy. Nevertheless, the rate of GDP expansion declined to 5.7 percent.

According to Abhani (2017), the results of demonetization are expected to surpass the effectiveness of the two previous demonetization efforts carried out by the government. He discovered that there was a growing trend of individuals opting for online payment methods. He also came to the conclusion that while demonetization did not successfully capture all the illicit funds, it instilled fear in those who hoard black money.

Muthulaxmi (2017) concluded that if currency is removed from the system, the country will not receive immediate benefits. She mentioned that while it had a significant effect on corruption, hawala, and fake money, it also had negative consequences on different areas of the economy.

In his analysis, Neeraj (2017) examined the influence of demonetization on illicit funds in India. The findings showed that demonetization solely affected the existing black money and did not have a lasting impact on future generations of illicit funds. However, he mentioned that it raised awareness among the public and instilled fear in the individuals involved in illegal activities such as black marketeering.

The agriculture industry, specifically small-scale farmers and fruit and vegetable sellers, was negatively affected by demonetization, as discovered by Sumathy and Savitha in their 2017 study.

Shah and Yousuf (2017) determined that the demonetization of 2016 was a significant measure in addressing corruption, the financing of terrorism, and the circulation of illicit funds. However, they reached the conclusion that the choice was made hastily, lacking sufficient planning, resulting in the suffering of the population. According to them, the economy suffered greatly as 86 percent of the existing currency was taken out of circulation, without any arrangements to replenish the cash crunch with new currency.

Shukla et. al (2018) came to the finding that citizens are in favor of any measures implemented by the government to eradicate black money, corruption, terror, and funding for naxal activities.

Tandon and Kulkarni (2017) examined the consequences of demonetization on illegal funds and dishonest activities. They determined that the government initiative successfully curbed tax avoidance and enhanced tax revenues.

According to Veerakumar (2017), the act of demonetization was a significant surprise. Additionally, he stated that the action was taken as a response to address the issues of evading taxes, producing fake money, and funding terrorist operations.

OBJECTIVE

This study aims to achieve the following goals:

1. To comprehend the extent and justifications behind the implementation of demonetization.
2. To analyze the effects of demonetization, both positive and negative, on different sectors of the Indian economy.

RESEARCH METHODOLOGY

The research is focused on providing a detailed understanding of the effects of demonetization on different sectors of the economy such as agriculture, manufacturing, and the service industry. It also aims to assess the impact on issues like tax evasion, combating illegal money, fake currency, illegal financial transactions, funding of terrorism, the process of making the economy more transparent, and the shift towards digital financial transactions.

The investigation relies on secondary information gathered from various sources such as Reserve Bank of India publications, data from the Union Finance Ministry, and statistics provided by the Central Board of Direct Taxes. The reports from different experts and the research work made by other scholars have also been examined.

RATIONALE BEHIND DEMONETISATION

On November 8, 2016, at 8:15pm local time, the Prime Minister of India made a surprise announcement on national television. He stated that the two highest value currency notes, the Rs. 500 and Rs. 1000 currency notes would no longer be considered as valid legal money and would be substituted with new Rs.500 and Rs. 2000 notes in due course. From midnight onwards, individuals who possess the old notes have the ability to deposit them at banks, but they are not allowed to use them for any transactions.

The policy had clear goals of focusing on undisclosed incomes, decreasing fraudulent activities, and eliminating counterfeit money. To achieve these goals, the government implemented restrictions on deposits for customers who did not meet "Know Your Customer" regulations, and established a deadline for the exchange of old notes by December 31, 2016.

Before demonetization, Rs.500 and Rs.1000 notes made up 86.9% of the currency under circulation. In order to keep the policy's unveiling a secret, the government and RBI refrained from both printing and distributing a significant amount of new notes beforehand. The limitations of the printing press at the time made it impossible for the government to swiftly replace more than a small portion of the total currency with new notes. As a result, the overall amount of money in circulation decreased by 75% overnight and took a considerable amount of time to gradually increase again in the following months.

Although the gradual substitution of notes resulted in a decrease in currency, it had no impact on the overall size of the RBI's balance sheet or market interest rates. The immediate result was an increase in deposits at commercial banks because households deposited old notes. However, they faced difficulties in withdrawing new notes due to the scarcity of cash.

The RBI initially mandated banks to keep these deposits as reserves at the RBI by raising the cash reserve ratio to 100% for any additional deposits received between September 16 and November 11. On December 6, the RBI decided to cancel the increase in the reserve ratio because the reserves were not earning

any interest. Instead, they absorbed the deposits by issuing short-term Market Stabilization Bonds, as banks were paying positive interest on their deposits.

The stability of the overall amount of debts also indicates that most of the demonetized notes were returned to the RBI, which goes against earlier predictions that the inability to deposit illegal money would result in the reduction of the RBI's currency debts. In other words, demonetization involved turning cash held by households and businesses into deposits in banks, and also exchanging currency for debts owed to commercial banks on the RBI's balance sheet.

The government, in collaboration with the RBI, made the decision in 2016 to implement demonetization in order to address the following issues:

- i) The presence of illicit funds, known as black money, can take different forms such as cash, investments in properties and real estate, expensive items like jewelry, or being held by foreign currency brokers and private lenders. The objective was to make black money known and integrated into the mainstream in order to eradicate its anonymity.
- ii) Fake Money: The issue of counterfeit currency presented a significant challenge as our foreign rivals aimed to undermine the strength of the Indian economy. After the withdrawal of the old currency, the counterfeit money lost its value overnight. It also could not be deposited at banks.
- iii) The financing of terrorism, specifically for terror activities in Jammu and Kashmir, as well as for Maoist and Naxalite actions in the central region, primarily occurred through the use of counterfeit currency. After the demonetization of the currency, the money held by these groups would lose its value and become unusable for carrying out such activities.
- iii) Corruption: Cash is commonly used for corruption in public life, involving illegal bribes and favors provided in exchange for assistance.
- iv) The economy in India had a significant portion that operated using cash, which went unnoticed by the tax authorities due to its lack of traceability. As a result, the government considered the idea of encouraging the transition to a digitalized and formalized economy by promoting online transactions, e-wallets, and different payment methods such as PayTM, Rupay cards, and BHIM app for making payments.

IMPACT

Demonetization had a notable effect on the tax base and tax revenue, while also leading to a substantial surge in digital transactions and the formalization of the economy. It can be observed that out of a total of 15.44 trillion invalidated currency, 99 percent, which is 15.28 trillion, has been deposited back into the banking system, leaving only 16,050 crore outside of the system. As a result, the government's belief that a considerable number of individuals would not come back and their expectation of receiving some reserves from the central bank was proven wrong. In contrast, the RBI only paid a dividend of Rs 32,000 crore in 2016-17, significantly lower than the previous year. The decrease in GDP growth had a significant impact on the SME sector, causing them to face financial difficulties and resulting in a considerable number of job cuts. The agriculture industry, which primarily operates with cash transactions, also demonstrated a lack of activity.

During the time of demonetization, there was a noticeable reduction in instances of terrorism and the issue of naxalites also experienced a significant decrease.

The following are the notable consequences of Demonetisation-2016:

- i) Expanding the tax base was greatly influenced by the implementation of demonetization, resulting in a notable increase. In the fiscal year 2016-17, 9.1 million new taxpayers were brought in, followed by 12.8 million in 2017-18. This rise in numbers can mostly be credited to the effect of demonetization and the efforts made by the Income Tax Department through initiatives like Operation Clean Money that were implemented after demonetization.

It can be said that the number of new taxpayers increased to 3.1 million in 2014-15 and 3.6 million in 2015-16. So, the number of new taxpayers in 2016-17 and 2017-18, which is 9.1 million and 12.8 million, respectively, is significantly greater and can be attributed to the impact of demonetization.

Despite the potential influence of additional government measures such as the implementation of GST in 2017 and enhanced tax administration, the key factors that continue to have a significant impact are demonetization, the depositing of cash into bank accounts after demonetization, and the efforts made by the tax department to include these individuals in the tax system.

During the whole Financial Year 2016-17, the combined number of electronic and paper returns that

were filed increased by 17.3% compared to the returns filed in FY 2015-16. In the fiscal year 2016-2017, approximately 12.6 million new taxpayers (including those who filed tax returns and those who made tax payments without filing returns) were added to the pool of taxpayers. This is a substantial increase compared to the previous years, where only about 3 to 3.5 million new taxpayers were added. These figures demonstrate the noteworthy influence of demonetization on the number of individuals contributing to the tax base.

During this time, the daily allotment of permanent account numbers (PAN) also rose from 100,000 to 200,000, resulting in a total of 300 million PAN assignments listed in the PAN directory.

The impact of demonetization is evident in the increase in direct tax collections, particularly in the collections of personal income tax. It can be observed that there was a growth of 41.79% in advance tax collections from personal income tax until August 2017, compared to the same period in the previous fiscal year. The self-assessment tax collection demonstrated an increase of 34.25 percent compared to the same period in the previous fiscal year. 2016-2017 marks a period when people had to pay higher taxes leading to its occurrence. Therefore, demonetization played a role in increasing the number of individuals included in the tax system. The implementation of Aadhaar-PAN linkage by the Income Tax Department resulted in the identification of individuals possessing black money under multiple PAN accounts. Therefore, due to the public's understanding of the importance of establishing a society that complies with tax regulations, the government's efforts to promote transparency through Aadhaar identification will likely be successful in the near future. After the demonetization process, the Income Tax Department initiated Operation Clean Money (OCM) on January 31, 2017. Its purpose was to examine the cash deposits made in bank accounts and utilize data mining software to pinpoint any discrepancies between these deposits and the corresponding tax returns. The initial examination of data conducted by the CBDT indicated that around 36 percent of individuals who deposited cash during the demonetization period from November 8, 2016, to December 30, 2016, did not submit tax returns. Additionally, 40 percent of these depositors were operating businesses as sole proprietors, whereas a mere 2 percent were corporate taxpayers; however, this small group accounted for 14 percent of the total cash deposits.

Approximately 6.7 percent of all depositors were individuals with salaries, yet their combined amount of cash only accounted for approximately 4.3 percent. 400,000 was the average cash deposit amount for small businesses and individuals. 42 lakhs for non-corporate taxpayers to Rs. 1.37 crore in the case of corporations. Small businesses and proprietorship concerns made up around 56 percent of the total cash deposits, whereas corporates accounted for approximately 22 percent, and the remaining portion was contributed by individuals and others.

One positive aspect of the demonetization program was the connection it created between reducing currency in circulation and the adoption of digital transactions. Undeniably, demonetization motivated individuals to adopt digital forms of payment. Despite the obstacles in digitalization, such as the introduction of new technology platforms like PayTM, RuPay, and Bhim app, the pace has gradually improved. However, demonetization has significantly propelled us towards a cashless society.

Demonetization has made digital transactions increasingly common and accepted, as shown by the rise in popularity of digital payment methods, tools, and organizations. Online payments are widely used among more advanced groups. The informal economy has also been reduced due to the rise in digital payments resulting from demonetization.

Approximately 15.44 lakh crore, consisting of Rs 500 and Rs 1000 notes, were rendered invalid. This resulted in only Rs 3 lakh crores remaining, causing a detrimental impact on businesses and disrupting regular commercial dealings. The economy was hence re-monetized by introducing new denominations of Rs.2000 and Rs.500 notes. Nevertheless, due to the implementation of demonetization, the overall amount of currency in circulation has significantly decreased to Rs 15.32 lakh crore. This is a decrease of more than Rs 3 lakh crore compared to before the demonetization period. Essentially, it represents approximately 9% of the GDP and seems to be a more stable and manageable level. This has also played a role in controlling the inflation.

The time of demonetization witnessed a record-breaking surge in counterfeit currency, with suspicious transactions rising by more than 480 percent after demonetization. In 2016-17, banks collectively produced over 4.73 lakh suspicious transaction reports (STRs), representing a 400% increase compared to previous years. The Financial Intelligence Unit (FIU), which investigates suspicious financial transactions related to illegal money laundering and financing terrorism as a part of the Union Finance Ministry, stated that there was a rise of more than 322,000 cases of fake currency transactions in the fiscal year of 2016-17.

According to the report released by the RBI, approximately Rs 410 crore fake currency was identified during the demonetization phase. Nevertheless, the mentioned statistic does not imply the exercise's triumph

or failure since the complete recovery of counterfeit money was not anticipated, and demonetization does not assure the absence of fake or recently introduced counterfeit currency.

vi) The prevention of illicit funds and corruption was a significant goal of the demonetization effort. There are no precise figures available regarding the amount of undisclosed money in India. Nevertheless, the issue of black money has persisted from the outset and was deemed by the Wanchoo Committee as detrimental to India, with potential to severely harm the economy. Corruption can be defined as the misuse of authority for personal benefit, as stated by Transparency International. It encompasses various aspects and is influenced by various factors, resulting in a range of consequences. This issue is deeply rooted in Indian politics and reflects the declining morals of society. This issue is deeply ingrained. Corruption has been widely observed across various sectors, presenting itself in various forms such as bribery, kickbacks, and facilitation payments.

Corruption has rendered most of the institutions in the nation inactive. Demonetization had a significant effect on the existing illicit money in the form of physical currency. This money was either exposed when it was deposited into bank accounts, causing it to lose its anonymity. In addition, instead of placing it in the bank, the owner may choose to destroy it themselves causing its destruction. Another option exists where a hoarder could modify their hoard through illicit methods, either by using a different type of currency or engaging in certain investment activities.

It is crucial to analyze both the positive and negative consequences of any policy action implemented by the government. In that regard, demonetization only had a regressive effect by eliminating or exposing the pre-existing illicit funds in the form of physical currency. It would have no effect on the ability to prevent future generations from illegally accumulating funds or prevent the conversion of such funds into various assets such as real estate investments.

The government's future actions and policies will determine the fate of illicit financial activities involving black money. However, one thing is certain: it has raised awareness about the existence of undisclosed income among the general population and instilled a sense of fear in those who hoard such illicit funds.

In terms of negative effects, demonetization greatly harmed GDP growth and employment from 2016 to 2018. After the elections, the economy started to improve and was expanding at roughly 8 percent in the fourth quarter of the fiscal year 2015-16. However, it gradually declined to 5.7 percent in the second quarter of 2017-18. This decrease had significant consequences on the government's fiscal deficit and its ability to spend on social programs.

Nevertheless, the decline in GDP growth cannot be solely attributed to demonetization alone, as the introduction of GST may have also had a substantial adverse impact on it. Many people believe that the government should have implemented the major reforms with more time in between in order to prevent the negative consequences.

Vii) Impact on Businesses: Demonetization had a significant negative effect on small and medium enterprises, particularly those in the informal sector, due to their limited access to cash flow. Many small businesses shut down, resulting in a negative impact on employment and a significant decrease in the opportunity to create new jobs. The demonetization move had a negative impact on the micro, small, and medium-sized enterprise (MSME) sector, which is crucial for the economy and employs over 80 million people. This sector primarily relies on cash payments for wages.

The decline in cash liquidity had resulted in a decrease in demand for different products, leading to unemployment. Additionally, it was discovered that the organized manufacturing sector also suffered negative consequences, as demonstrated by the decrease in sales of fast moving consumer goods (FMCG) and automobiles during the period from November to January.

The manufacturing PMI showed a continued decline in December, 2016. Additionally, there was a slowdown in the rate of growth for exports in November.

Viii) The agriculture sector, which employs the highest number of people, experienced severe negative consequences due to demonetization. In this industry, the majority of transactions are done in cash, so when there was a shortage of available funds, it had a negative impact on buying seeds and fertilizer. As a result, planting and agricultural production were negatively affected.

Fruit and vegetable growers experienced a severe impact. They require money to buy pesticides, fertilizers, and manpower for farming activities, including cultivation, harvesting, transportation, and selling in towns and markets. Therefore, as a consequence of a lack of liquidity, there was a decrease in returns, a decline in sales, an increase in waste, and a reduction in the amount received for products or goods. In addition, retail vendors selling vegetables encountered another challenge due to insufficient demand, resulting in a significant amount of their products being wasted as they are prone to spoilage. Additionally,

due to a severe lack of Rs 500 notes and a shortage of change for the higher value Rs 2000 notes, the vegetable and fruit vendors' sales were negatively impacted. This was also causing small vendors to lose customers to large retail markets, ultimately affecting the incomes of those in the unorganized sector.

The farmers' employment was affected by their lack of cash, as they were paid in cash for their agricultural work. The majority of agricultural financing is done through cooperative banks. However, these banks were prevented from accepting demonetized currency through exchange-deposit, which had a negative impact on the farmers.

During the demonetization period, there were disruptions in the supply chain of agricultural produce in mandis, which are primarily cash-based, affecting their sales, marketing, and distribution processes. Additionally, it has been discovered that there was minimal lending activity by the banks during the demonetization period, which coincided with the peak season for sowing Rabi crops. The farmers faced serious difficulties in purchasing farm machinery since they did not possess PAN cards, which are mandatory for conducting bank transactions exceeding Rs. 50,000. The absence of banks and ATMs in rural regions decreased access to cash for farmers, allowing illegal moneylenders, black marketers, and middlemen to exploit the situation.

COST OF DEMONETISATION-2016

The Economic Survey for 2016-17 found that the impact of demonetization on the country's economic output was estimated to range between a 0.25 percent to 1.00 percent decline in GDP growth. In reality, the rate of increase in GDP decreased from 8 percent in the period of 2015-2016 to 7.1 percent in 2016-2017 and further dropped to 6.7 percent in 2017-2018. Some critics argue that the slowdown in growth cannot be solely attributed to demonetization, but rather to other factors like the implementation of GST in July 2017 and the issues faced by banks in lending due to bad debt and non-performing asset problems.

Determining the specific extent to which each factor influenced the economy is challenging, but the largest contributor to the decline in growth of the GDP in 2016-17 and 2017-18 was undoubtedly demonetization. The Economic Survey states that the decrease in GDP caused by demonetization ranges from 0.25% to 1% (with an average of 0.63%). As both the GDP in 2016-17 and 2017-18 were impacted by this, the average GDP for these two years is estimated at 2.5 trillion USD. By using an exchange rate of 70, the economic output loss resulting from demonetization is calculated to be Rs 1.1 lakh crore.

The RBI and the government also spent approximately Rs 17,000 crore in printing fresh currency, its transportation, security, logistics, and other associated costs. Thus the overall expense of demonetization on the economy is approximated to be around Rs 1.27 lakh crore.

CONCLUSION

According to statistics, demonetization had a notable and beneficial effect on the tax base and the amount of taxes collected. However, some individuals believe that this outcome could also be attributed, at least in part, to the implementation of the GST in 2017.

Another important positive outcome of the demonetization programme was the close connection between demonetization and the shift towards digital transactions, which will benefit the government in the long run by increasing tax revenue. Undeniably, demonetization prompted individuals to adopt digital means.

Also, one of the significant benefits of demonetization is its effectiveness in raising awareness about the issue of black money on a national level. While previous attempts such as the Income Disclosure Schemes might have had limited effects, the willingness of the public to make sacrifices in the hopes of eradicating illicit funds through demonetization has turned this program into a widespread movement against illegal finances. This will enable India in establishing a society that is both tax compliant and transparent. The implementation of demonetization also resulted in a decrease in the amount of money flowing to terrorist groups and played a role in the dismantling of their fake currency operations.

Nonetheless, this resulted in significant negative impacts on both society and the economy, leading to immense suffering among ordinary individuals. Numerous individuals lost their lives while waiting in line to exchange currency at banks. Due to the lack of cash and restrictions on withdrawals, numerous individuals were unable to meet their social responsibilities.

The economy was severely affected by a decline in manufacturing, particularly in small and medium-sized enterprises, as well as in the agriculture sector. This, along with a slowdown in GDP growth and the loss of jobs, had a significant impact. The general consensus is that while demonetization was a positive move, it could have been executed more effectively with improved planning and preparation. The presence

of enough liquid funds in the banks along with the preparedness of digital payment platforms for the general population could have had a significant impact.

Providing the public with comprehensive education on utilizing banking services and digital payment methods in everyday transactions, as well as decreasing bank fees for these transactions and payments through Aadhaar-enabled digital solutions, would have had a significant impact.

Actually, the expenses of demonetization are calculated to be around Rs 1.27 lakh crore for the economy. This includes a decrease in GDP worth approximately Rs 1.1 lakh crore, considering the average decline in GDP growth of 0.63 percent, the GDP size of 2.5 trillion USD, and an exchange rate of Rs 70. Additionally, there is a cost of Rs 17,000 crore for the government and the RBI to carry out the demonetization procedure in India.

Additionally, cash makes up only approximately about 6 percent of the entire shadow economy. Therefore, the demonetization policy could only concentrate on this specific 6 percent of illicit funds in the form of cash, excluding black money invested in real estate, property, gold, jewelry, and other assets.

There is a widely held belief that demonetization alone is not enough to address the issue of black money and corruption in the country. Instead, additional actions are necessary, such as taking steps against illegal investments in properties held under false names, cracking down on investments in jewelry, gold, and other luxury items, and holding accountable those who evade taxes by hiding their money in offshore accounts like HSBC, Panama Papers, Paradise Papers, and others.

Therefore, it can be stated that demonetization in 2016 had both favorable and unfavorable effects on the economy. Nevertheless, it is widely accepted that although there was a slight decline in GDP growth and a temporary setback for the unorganised sector as a result of the demonetization campaign, it significantly contributed to cleansing the system and will greatly contribute to making India a more transparent and tax-abiding society. The usage of e-wallets, debit cards, and credit cards has significantly increased, leading to the development of a more efficient cashless system.

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