IMPACT OF DEMONETIZATION ON THE INDIAN ECONOMY

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ABSTRACT

The demonetizations in India in November 2016 occurred on a very different magnitude than those in Jan 1946 and Jan 1978. This time, Prime Minister Modi’s administration & its regulations extended to 86.4% of the coins and bank notes in the circulation or 11% of the GDP. The two objectives of this strategy was to decrease black currency and corruption in the Indian economy and to improve financial inclusion & develop a more robust digitalized economy.

Demonetization is the process of removing legal tender status from a monetary unit. The head of the administrator took unexpected action that has affected India & its finance sector. It has affected the economy's rate of growth broadly speaking. It affects consumer shopping habits as well as other societal elements like families and online enterprises. Demonetization has also had a short-term negative effect on the Indian economy, including a minimal GDP increase, the loss of wage-earner jobs in some sectors, Agriculture, and some adverse effects on the real estate market. Compared to large farmers, marginal farmers were more impacted regarding sowing, buying inputs, and selling agricultural products.

The general public has shifted away from traditional cash-only transactional patterns and toward electronic transactions. The whole value chain of the textile and garment sector was impacted by demonetization. The citizens of India are now subject to many restrictions due to demonetization. They had to wait in queues to exchange their currencies, had issues with banks and ATMs to deposit their money and issue fewer goods and commodities because of a lack of cash liquidity.

INTRODUCTION
The process of stripping a monetary unit of its status as legal tender is known as demonetization(Pattanaik, 2017). In order to combat tax fraud and black money hoarded outside of the legal economy, the Indian government demonetized banknotes twice previously, in 1946 and 1978(Rajagopalan, 2020). The coalition government of the Janata Party demonetized bank notes of ₹1,0000, ₹5,000, and ₹1,000 in 1978, once more in an effort to combat illicit markets and counterfeit currency(Bose, 2019).

A paper by the State Bank of India (SBI) examined potential techniques and the impacts of demonetization before the proposal to demonetize the Rs. 1000 and Rs. 500 banknotes were put forth six to ten months prior(Gajendranayagam & Ganesan, 2017). The Reserve Bank of India began planning for new notes in May 2016 and confirmed the design of the rupee banknotes in August 2016(Jasmine Shirley, n.d., 2017).

On Nov. 8, 2016, the Honorable PM of India Mr. Narendra Modi ordered the removal of the Rs. 1000 and Rs. 500 bank notes from the circulation in India. It was a significant event in the year 2016(Chauhan & Kaushik, 2017). If done incorrectly, demonetization could result in economic chaos or a severe downturn(Chand & Srivastava, 2019). In India, only 5% of employees pay income taxes, only 15% of the economy is subject to taxes, and the country's tax-to-GDP ratio of 17% is 5 percentage points lower than that of comparable nations(Jasmine Shirley, n.d., 2017).

It is estimated that just 5 to 6 percent of India's unlawful wealth is comprised of cash. While the "ordinary man" struggles to make daily purchases of commodities, medicine, food, bus and train tickets, and other necessities, the wealthy have hired "mules" to queue up and convert their currency for them(Kandpal et al., 2019).

As per the Reserve Bank of India report, cash transactions that are happening are about 87%, and the people which are entangled in misconduct build up a parallel economy with the money which is not noted. The financing of terrorism is aided by this parallel economy, which in turn restrains economic expansion(Kandpal et al., 2019).

Demonetization has been used as a tactic to tackle inflation, stabilize the national currency, and make the market and trade access more accessible(Gupta & Gupta, 2018). Demonetization is a practice that has become well-known. In 2016, India demonetized 86% of its national currency(Das, 2020). Social media or digital content that was once eligible for revenue distribution but has since been denied financial proceeds may alternatively, be described as having been demonized(Kapoor & Varshney, 2021).

**ROL**

**Impact on economy**

India actually has a vibrant cash economy. Most businesses in India operate in a cash-only environment with little accountability or transparency(Soni, n.d., 2018). With 12.1 percent of the GDP, India has the highest percentage of currency in circulation(R. Siva Kumar et al., 2017). Since India is a tax haven, as noted in the Union Budget for 2017–18, its tax-to-GDP ratio, which is roughly 18%, is among the least(Chodorow-Reich et al., n.d., 2019). Corruption and tax evasion are obstacles to economic expansion. Demonetization is a step toward improving tax compliance, tax collections, and borrowing needs(Singh, n.d., 2018).

This action will assist the Jan Dhan and Digital India campaigns gain momentum, which will ultimately result in the success of direct benefit schemes (where the government will immediately transfer scholarships and compensation funds into the accounts of the underprivileged)(Choudhary et al., 2017). The tax defaulters made every effort to pay the money they owed to banks since they were aware that unregistered funds could be lost. They were permitted to use the prohibited notes to pay back the money and discharge their obligation to them(Maqbool & Gulzar, n.d.,2017).

The removal of illicit money will aid in the recovery of economy. Firstly, it will increase borrowing to the Treasury, reduce inflation expectations, & boost India's GDP(Roslin & Dasan, n.d., 2018). If all else is equal, an increase in the amount of cash in the banking system will lead to an increase in overall economic investment;
however, this also causes investments in the agriculture and infrastructure sectors to take longer to mature (Joshi & Jadav, n.d., 2017).

Demonetization and withdrawal restrictions led to a sharp reduction in the money supply and decreased use of these notes, which had an adverse effect on liquidity in the short term (Preethi & Sangeetha, 2017). Since GOI demonetized the 500 and 1,000-rupee bank notes, the Indian equity markets have been on an almost secular downward trend (Khaja Nizamudeen, 2017). NIFTY’s average closing price for the 30 days prior to demonetization was 5.78% more than closing price for the 30 days following demonetization (Ashok Bantwa, 2017).

Following demonetization, there were 24.7 percent more returns submitted as of August 5, 2017, than there were the year before. Over the previous year, personal income tax advance tax revenues increased by 41.79 percent (Sivathanu, 2019). Self-Assessment Tax on Personal Income increased by 34.25 percent over the previous year. Demonetization appears to have succeeded in improving India's tax compliance and expanding the scope of our fiscal policy (Singh, n.d., 2018).

Demonetization, despite causing havoc in the beginning, is seen as helping India's e-commerce sector expand in the long run. The decline of cash on delivery payments is one of the e-commerce sector's long-term advantages. Before and after demonetization, there is a substantial fall in retail shopping and an increase in online shopping (Kaur, 2017).

**Effects on the parallel economy:** A parallel economy is one in which unrecorded money is present (Chand & Srivastava, 2019). With demonetization, the economy’s black money will be barred since its owners are unable to replace it in the banks because they lack the necessary documents. The benefit of demonetization will be that the parallel economy will be more significantly impacted in this way (S. Singh, n.d., 2017).

Gross Value Added (GVA) increase overall at constant prices did decrease to 6.6 percent in Quarter 3-FY17 from 7 percent in Quarter 3-FY16 (Goel, 2018). Demonetization has had a severe impact on a number of industries, including manufacturing, trade, construction, transportation and communications, real estate, finance, and professional services (Srinivas, 2017). 47.3 percent of the entire CPI is accounted for by inflation in the food category, as determined by changes in Consumer Food Price Index (V. K. Singh & Ghosh, 2021). The supply and demand for food goods decreased as a result of the financial system losing 86.4 percent of bank notes that were in circulation and the slow rate of remonetization. It will further reduce inflation's upward pressure (Khaja Nizamudeen, 2017).

**Impact of demonetization on the agriculture sector**

The agriculture sector is a significant contributor to India's economy. A total of 54.6 percent of the population works in related industries to agriculture and food production (Aggarwal & Narayanan, 2021). Therefore, due to unforeseen decisions to change the major currencies, especially by medium and small farmers, the agriculture industry has also been impacted (Mukhuti et al., 2018). The agricultural industry, which employs a lot of people on daily wages and prefers liquidity, saw its expansion slow down. Construction increased at a pace of 2.3 percent in Q1 of 2017-18 and saw a decline of 0.2 percent since the Q1 of 2016-17, while agriculture rose by 2.3 percent compared to 2.5 percent in Q1 of 2016-17 (Chadha & Sharma, 2017).

The demonetization of Indian currency notes had a significant impact on farmers, who are regarded as the foundation of our country's economy (Murthy et al., 2019). It was harvest season in the agricultural industry, an important period for the farmers, and there was a great need for cash to purchase seeds and other equipment to grow the following crops. Due to a lack of money, farmers were not able to purchase the necessary amount of seeds for planting (A. K. Singh, 2017).
The country's farming community was either busy in the sowing of Rabi crops or the post-harvest operation of Kharif crops when the decision to demonetize the high currencies was made. For the conduct of both of these activities, a significant sum of money is needed (Bisen et al., 2017).

In the two years since the demonetization, farmers have demonstrated in a number of Indian states, including Madhya Pradesh, Tamil Nadu, Rajasthan, and Maharashtra. In one such demonstration known as the "Long March," 50,000 farmers in Maharashtra walked hundreds of kilometers to the state capital to express their concerns to the chief minister (Aggarwal & Narayanan, 2019).

Due to the fact that the majority of farmers lack adequate education, the cashless policy made it extremely difficult to develop an e-payment system. Farmers spend the most time changing old currency notes in their own banks because most villages lack a comprehensive banking system and require villagers to travel to nearby city areas (Mukhuti et al., 2018). However, the government has given farmers assistance so they can purchase agricultural inputs using older denominations of cash without having an impact on their business (Bisen et al., 2017).

**Impact on people**

India is a country where only a handful portion of the population is wealthy, and most of the people earn an average wage despite living over the poverty level (Khanna & Mukherjee, 2020). An estimated 276 million Indians, or 23.6% of the entire population, lived on not more than $1.25 a day in terms of buying power parity (Mary, n.d., 2019). An estimated 276 million Indians, or 23.6% of the entire population, lived on not more than $1.25 a day in terms of buying power parity (Karmakar & Narayanan, 2020).

The average man was most negatively impacted by the abrupt dissemination of information about demonetization. The harsh societal effects included serious problems in marriages and a halt to cash transactions in marriages (Soni, n.d.-b, 2017). The majority of people had issues with ATMs that didn’t operate, bank lines that were too long, public hospitals that wouldn't accept old bills, buses, cabs, and cars, and ATMs that didn't have enough money for withdrawals (Rammya, n.d., 2017).

Post-demonetization 80 percent of domestic employees and just 50 percent of female homeowners who had personal savings before demonetization continued to do so. Demonetization discouraged more women homeowners from saving for their own purposes than domestic help, as a result (Syngle, 2017).

Daily wage workers who are paid on a per-day basis are a part of almost every sector. These daily wage earners may experience significant suffering from delayed payments due to a lack of cash with lower denominations (Venu Madhavi & R R Ramesh, 2017). Common guys are having trouble purchasing consumer items because they don't have any cash on them (Chand & Srivastava, 2019).

The regular people benefited from demonetization, which is why they are now using digital currency more frequently. As a result, there is no need to bring physical currency anywhere, which also lowers the crime rate (Soni, n.d.-b, 2017).

**Impact on the Healthcare and Pharmaceutical Industry**

All economic sectors have been hit by the unexpected shift, and the healthcare and pharmaceutical industries were no exception (Kumar Sarkar & Dutta, 2017). Government-run hospitals are exempt from the demonetization rules and permitted to accept the old rupee 500 and 1000 notes for 72 hours following the notification's release (Kumar & Chinta, n.d., 2016). Nearly 70–80% of door-to-door healthcare services, including home care and diagnostics, were impacted by demonetization (Kumar Sarkar & Dutta, 2017).
The pharmaceutical industry's entry barriers were lowered as a result of the big firms' diminished financial clout. Negative effects were felt with regard to the financial incentive and other shady transactions (Kumar Sarkar & Dutta, 2017).

Impact on Digitalization

The digitalization of payments has been significantly impacted by demonetization. Throughout the ATM withdrawal phase of demonetization, fewer people used them. Additionally, it sped up the adoption of POS systems and mobile banking as electronic payment options (Fouillet, 2020).

The economic panic caused by India's demonetization on November 8, 2016, however, also prepared the path for digitization of Indian economy due to a paucity of cash (Athique, 2019). Higher monetary transparency, low-cost upkeep, increased user-friendliness, financial inclusion, and the eradication of counterfeit and black money from the economy are all benefits of digitization (Sivathanu, 2019). But just as getting somewhere is always fraught with obstacles, so too is India's journey toward becoming a digital India. These obstacles include a low rate of literacy, low bandwidth network, more areas without bank services, late adjustment to technology, poor supply of electricity, the threat of security issues like cybercrime and hacking, the transparency of personal information, & the need for significant investment (Bhatnagar n.d., 2017).

The government aimed to eliminate counterfeit currency, fight tax fraud, manage inflation, halt the flow of illicit funds used to fund terrorism, and promote a cashless society (Sivathanu, 2019). The results demonstrate that demonetization had a strong + ve impact on the electronic transactions, particularly RTGS and NEFT, in terms of transaction volume and value (Hindocha & Pandya, 2019).

Age, marital status, present levels of digitalization, and infrastructure for implementing digital means are some of the few examples of the demographic elements that had a substantial impact on the demonetization effect's magnitude and permanence (Taneja, n.d., 2020). Since demonetization, the percentage of point of sale (PoS) and mobile transactions has declined while the percentage of purchases made using cards has increased (Taneja, n.d., 2020).

To encourage individuals to use digital tools, the GOI has launched Vittiya Sakharata Abhiyaan (VISAKA) and outreach projects like DigiDhan Abhiyan. Demonetization is generally lubricating the digitalization process and turning India into a "Digital India" (Bhatnagar n.d., 2017).

Impact on the Banking Sector

Nearly all of the country's service sectors were impacted by demonetization, with the banking industry being the most severely hit (Meher, n.d., 2017). Its effect on the banking industry is significant since banks serve as a central hub for distributing legally sensitive funds to meet all of the public's demands (Vinoth & Dilip, n.d.). Within 30 days of demonetization, massive amounts of money—roughly 17 lakh crores—have entered banks (Meher, n.d., 2017).

At the time when financial institutions had lowered the interest rates on deposits, demonetization has led to an increase in deposit growth. Deposits increased by 13.8%, or Rs 12.59 lakh crore, to Rs 104.9 lakh crore from a 10% increase in the previous year (Gupta & Gupta, 2018). The demonetization move, which was followed by the Indradhanush program, gave banks a significant opportunity to restructure the banking sector to boost the economy (Meher, n.d., 2017). NPAs are a burden for Indian banks. The money entering the system will improve their balance sheet. Additionally, non-performing advances have decreased (Gupta & Gupta, 2018).

The citizens were forced to deposit their cash in banks as a result of demonetization. The banks are currently flush with large sums of money, which may also present opportunities for the banks to provide enough sums of money to more genuine clientele who were previously denied. Such action reduced the likelihood of NPAs in the future (Meher, n.d., 2017). Demonetization's excess liquidity in the banking sector will reduce borrowing costs and widen credit availability. This will have positive multiplier effects on the economy (Gupta & Gupta, 2018).
Impact of Demonetization on Aviation

Indian carriers have announced a drop of 7-10% in generally speaking deals after the demonetization (Chadha & Sharma, 2017). The homegrown sector is more affected when contrasted with the global sector, due to the past arranging and installments (Kapoor & Varshney, 2021). Yet, the flight business demonstrated a quick flood in the homegrown flyers where there were 95.5 lakh homegrown flyers, during the long stretch of December 2016 (Kapoor & Varshney, 2021).

The primary explanation is the old money notes could be utilized to purchase carrier tickets. As per Homegrown Air Traffic Report Jan 2017 around 22.45% of traveler development was recorded by the homegrown carriers. Accordingly, we can presume that demonetization had an insignificant impact on the aviation sector (Chadha & Sharma, 2017).

Impact on Industries

There was a decline in industrial output in the cash crisis-affected industries. The eight key industries that makeup steel, iron, cement, and refinery—which together account for 38% of overall growth—saw a decline in the Industrial Production Index (IIP). The construction industry has suffered significantly as a result of significant salary consequences for its temporary workers. Investors must pay for volatile stocks (Das, 2020).

Impact on Retail Sector

Demonetization results in welfare losses for individuals in the retail sector of society who are paid based on their daily sales as well as for those who don’t have a culture of digital transactions (Lawrence et al., 2018).

Due to the large amount of cash transactions that the physical retail sector in India generates, over 80% of all transactions made online through retail are made in cash. Retailers both online and offline are working hard to stay afloat and overcome the difficulties created by demonetization. Shopkeepers are urging customers to stop using cash and promoting multiple payment options to postpone making a transaction hindrance (V. Kumar & Goyal, 2017). Delays in debtor payments unable to pay creditors, loss of stock, Reduce the asking price. Respondents were asked to rank all of the issues based on their level of preference (Lawrence et al., 2018).

METHODOLOGY

The entire foundation of the study is secondary data and material that was gathered from various journals. The search for articles was done online by using the search words ‘Impact of demonetization, People, Economy, digitalization’ in the title and keywords in research databases at Elsevier, Research gate, Academia, Springer, and SAGE.

ANALYSIS

The (PRISMA) approach is the one utilized. The aims, year of publication, amount of citations, and recommendations for additional research were all taken into consideration as all publications that had made it through the selection process were examined and summarised.
INCLUSION & EXCLUSION CRITERIA

The be included in the current study, studies have to meet some criteria

(a) Studies have included some kind of selection criteria (Demonetization, Economy). These criteria limited the number of studies (b) Accordingly excluded the studies in which based on irrelevant information there is no proper Title, Abstract & Review

PRISMA Flow Diagram

FINAL DATA SET

All of the keyword search results from 3500 research papers were returned by the research database search. After looking at the title, I discovered that the article was present in two distinct databases. After removing the duplicates, 2803 articles remain. 450 articles in all were reviewed. 340 items were disqualified because they didn't fit the inclusion requirements.
Articles accessed for eligibility are 110 articles. A Total number of 60 articles were excluded based on title and abstract (37) Irrelevant to the topic (12) Duplicate (11).

The final data set consists of 55 articles.

The oldest included study was published in the year 2016 and the most recent study was conducted in 2022. The Entire process is shown in the figure.

DISCUSSION

The process of stripping a monetary unit of its status as legal tender is known as demonetization. The Narendra Modi administration's laws applied to 11 percent of the GDP or 86.4 percent of the currently circulating banknotes and coins. The two goals of this plan were to enhance financial inclusion in the country and create a robust digitalized economy while also reducing black money and corruption in the Indian economy.

The RBI has stopped accepting the old Rs. 500 and Rs. 1000 bank notes as legal cash, which is referred to as demonetization. The head administrator made a surprising decision that had an impact on India's financial system. It has affected the economy's rate of growth broadly speaking. It affects consumer shopping habits as well as other societal aspects like families and online enterprises. The Indian economy has also suffered short-term setbacks as a result of demonetization, including negligible GDP growth, the loss of wage-earning jobs in several industries, agriculture, and some unfavorable effects on the real estate market. Marginal farmers experienced greater effects on planting, purchasing inputs, and selling agricultural products than major farms. The general public has begun to switch from conventional cash-only transactional patterns to electronic ones. Demonetization had an effect on the entire textile and apparel value chain. Demonetization has resulted in numerous limitations being placed on Indian residents. They encountered difficulties using banks and ATMs to deposit their money, had to wait in line to exchange their currencies, and issued fewer goods and commodities due to a lack of cash liquidity.

CONCLUSION

The current analysis demonstrated how Demonetization affected several Indian economic sectors. One significant move towards the elimination of black money was the central government’s recent move to demonetize high-value currencies. According to the findings of this study, demographic variables such as age group, gender, occupation, income level, area of residence, and family size have a similar impact on demonetization. Regardless of the before mentioned factors, all respondents from the middle class experienced difficulties during demonetization. Despite the government& its stringent measures to promote digitalization, the middle class prefers cash transactions. The Indian textile industry saw a beneficial influence from digitization and the use of robust digital payment systems, despite the demonetization having a negative impact on demand, cash flow, and productivity. As a result, it is critical for the government to raise public awareness about digitization and make the digitization process more user-friendly. The general population will be impacted by the demonetization push to some extent, but such measures are unavoidable for the national good. Additionally, while it might not completely stop the flow of illicit money, it undoubtedly has a significant influence. Short-term effects of the demonetization announcement were observed, but the market gradually recovered and returned to normalcy. The demonetization process has reduced the GDP growth rate by almost 1%. The introduction of the Rs. 2000 note into the market fills the need left by recently abandoned notes swiftly and effectively, but it also makes it easier to bribe people because it is easier to carry than earlier notes. Demonetization caused the forging money market to temporarily slow down; it was difficult to collect identical notes of currency quickly, but over time it restored the market’s reputation as a respectable place to do business.
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