



DEMONETISATION- IMPACT ON INDIAN ECONOMY

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ABSTRACT

Government of India demonetised the currency as a tool to fight against corruption and black money which were considered as the major problems of Indian economy. With the completion of one year since demonetisation this would be the right time to analyse its effects on Indian economy. The opinions of great expert on economics and financial economist have been considered in this study to know about the positive and negative impact of note ban decision taken by Indian government. This study is purely based on secondary data, which is collected from news papers, magazines, websites from internet, some useful books related to topic etc. The present paper highlights the probable consequences of this decision on various economic variables and entities.

Keywords: - Demonetisation, Indian government, note ban, expert, opinion.

Introduction- Demonetisation in India

Demonetisation is the process of removing certain currency from general usage or circulation. It is the act of changing the existing currency in another form. The old units will be retired and replaced by new currency. In other words demonetization means either introducing new notes or coins of the same currency or fully replacing the old currency with new currency. Some reasons for demonetisation are like resisting inflation, corruption and to discourage a cash system in the country. This move is expected to cleanse the formal economic system by:

- Tackling black money in the economy;
- Lowering the cash circulation in the country which is directly related to corruption in our country;

Reasons for Demonetisation

- **Black Money:-** A recent study had pegged India's black market economy at over Rs 30 lakh crore or about 20 % of total GDP. This is even bigger than the GDP of countries like Thailand and Argentina.
- **Fake Currency & Terrorism:** - Terrorism is a frightening thing. Enemies from across the border have run their operations using fake currency notes. This has been going on for years.
- **Economy:** - The Major impact of this decision is on the economy because it gives highly positive impact on the economic Stability in near future.
- **Less Cash Economy:** - It is not possible to make India Cash-Less economy, but for the development and making transparency in the economy we can suggest less Cash. So for making people familiar with E-Payment and use of plastic currency demonetisation would help.

In January 1946, for the first time demonetisation took place in India. During this demonetisation currency notes of 1000 and 10000 rupees were withdrawn from the circulation and new currency notes of 1000, 5000 and 10000 denomination rupees were introduced in the year 1954. On 16th January 1978, Government of India demonetised the currency notes of 1000, 500 and 10000 rupee notes as a means to counterfeit money and black money. The present demonetisation is the third occurrence in Indian Economy. During Demonetization Reserve Bank of India had withdrawn the old Rs 500 and Rs 1000 notes as an official mode of payment. On 28 October 2016, the total currency in circulation in India was Rs. 17.77 lakh crore (US\$260 billion). In terms of value, the annual report of Reserve Bank of India of 31 March 2016 stated that total bank notes in circulation valued to Rs.16.42 lakh crore (US\$240 billion) of which nearly 86% (i.e. Rs. 14.18 lakh crore (US\$210 billion)) was 500 and 1000 rupee notes.

OBJECTIVES OF DEMONITISATION

1. One of the major objectives of the demonetisation is to fight against the black money. With the demonetisation the black money within the economy will be blocked as the owners of the black money in the form of 500 and 1000 rupee notes cannot replace it and deposit it in the banks as it is not having the proper documents. In this way the parallel economy will be affected to a greater extent which is the positive impact of demonetisation.

2. Money supply will be reduced in the market due to withdrawal of currency notes from circulation. This effect will be the short run impact of demonetisation. The problem of money supply will be solved when the new currency notes widely circulated in the market.

3. Decrease in money supply as a result of demonetisation is also having an impact on production and consumption. Due to decrease in money supply production decreases and it affect the consumption negatively.

4. Prices for different goods will fall with demonetisation of currency. The prices of consumer goods and the prices of real estate sector are expected to fall.

5. The demonetisation increases the deposits in current account and savings bank account. As government

Announced the demonetisation, the money held by the household sector for the emergency purposes will be deposited with the banks, which will increase the deposits in the banks.

6. Due to demonetisation the cash transactions had a reduction, which increased the other alternative modes of transactions like credit cards, debit cards online payments and transactions etc.

7. GDP will be hurt due to the demonetisation. GDP of India may fall as a result of demonetisation.

Objectives of the Study

- To analyze the impact of demonetization on Indian economy;
- To analyze the impact of Demonetization on GDP and on different sectors of economy.

Scope of the study

The present study will be helpful for the citizens of India, Indian government, businessman and the Indian customers. For the purpose of analysis and data collection the study covers a period of one year i.e. from November 2016 to November 2017.

RESEARCH METHODOLOGY

Type of Data The present study is quantitative in nature and secondary data will be used for the purpose of analysis.

Source of Data The present study is based on secondary data. The sources of data include the facts released by Reserve Bank of India (RBI), Exchange, Central statistics office India and Different banks websites.

Data Collection

Secondary data has used for the study. Secondary data is collected from library, text books, and journals, articles from news papers and from relevant websites available on internet.

Experts Opinion

1. Amartya Sen (Leading economist; Noble Laureate; recipient of the Bharat Ratna) - Professor Amartya Sen said that millions of innocent people have deprived from their money and being suffered to get their own money back.

2. Dr. Manmohan Singh (Former Prime Minister; eminent economist; former RBI governor) Dr. Manmohan Singh said in Rajya Sabha that this demonetization is organized loot. In his speech he said that, the way the scheme has been implemented will harm the agricultural sector in India, it will also harm the small-scale industry and informal sectors of the economy.

3. Kaushik Basu (Leading economist; Senior Vice-President and Chief Economist at The World

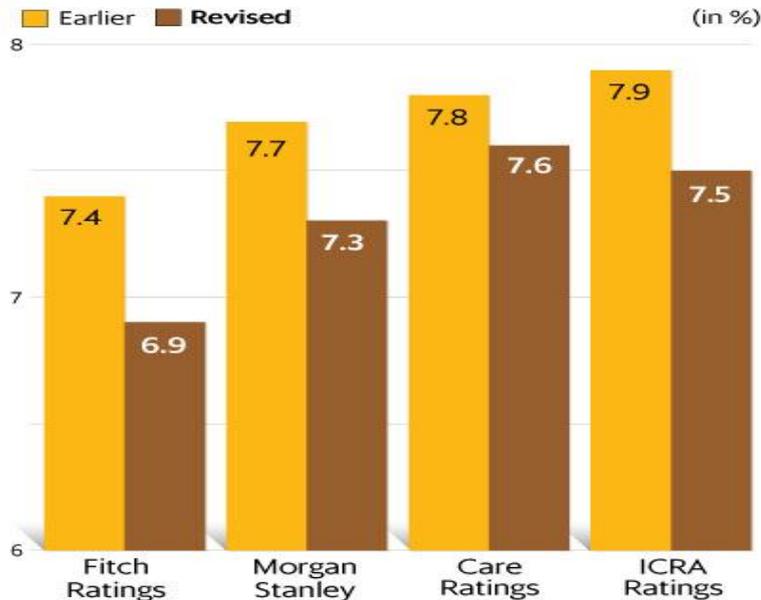
Bank) Mr. .Kaushik Basu said that government of India made policy that any person who deposits money beyond the limit of 250000, have to pay huge penalty. This policy created a new black-market, in which large amount of illicit cash broken into smaller parts and deposited by the members of team; which is a legal way of illegal activity. Mr., Basu said this move is hurting innocent people who has no illegal money but they have built up cash reserve over a long period of time.

5. Arun Jaitley (Current Finance Minister of India; Senior Advocate, Delhi High Court) Mr. Arun Jaitley gives his opinion that the demonetization is good for economy, Indian banks were facing NPA problem since last many years, now banks will have more money to lend for many sectors of the economy.

Effect on GDP: The GDP formation can be impacted by this measure, with reduction in the consumption demand. Moreover, this expected impact on GDP may not be significant as some of this demand will only be deferred and re-enter the stream once the cash situation becomes normal.

Economic impact

Revised GDP growth outlook by various rating companies for the financial year 2016-17 due to demonetization



Source: Mint research

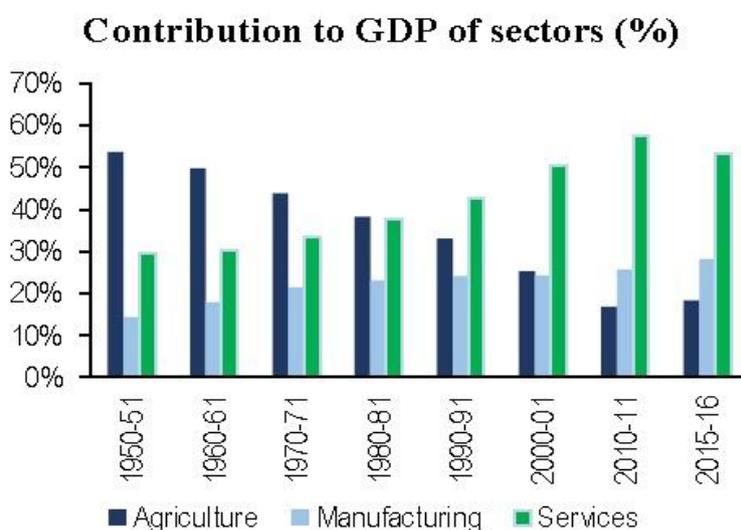
Impact on Different segments of economy: There is short-term and long-term impact of Demonetization on different sectors of economy. **The Short-term Impacts:** There will be a disruption in the current liquidity situation as households are likely to get affected by the note exchange terms laid by the government. Though clarity is unfolding on this, commodity transactions and general cash market transactions are likely to feel an immediate impact. Unorganized sector proceedings, including small trade market activities, will remain volatile in the short-term. Overall, negative impact on disposable income is expected along with likely disruption in the consumption patterns of the general populace. It is estimated that there will be a negative GDP impact in the current quarter as consumption gets a shock in the immediate term. However, quantum and degree of this impact cannot be ascertained at this time.

The Longer-term Implications: This essentially represents a change in regime for the real and financial economy. Domestically, there could be some turmoil as the effect will be disproportionately felt by the lower and upper income classes. Internationally, the government is likely to get thumbs up for the move and more countries could potentially see this as a viable option to curb black money and stem illegal financial activity.

THE SECTORAL IMPACTS While sectors with linkages to the unorganized economy are likely to be affected, technology and financial services are expected to gain in the medium to long term. On a sectoral basis, the commodities and agricultural sector, including the market for consumer durables and non-durables is expected to feel the heat. In the short to medium-

term, large denomination purchases will likely be made via electronic purchases rather than through brick and mortar outlets. This will impact the retail sector adversely. The real estate sector is likely to see a significant negative impact in the medium- to long-term, particularly in the repurchase market.

A.) Impact of Demonetisation on Agriculture: The sector typically has higher level of cash transactions and therefore near-term impact could be seen till liquidity is infused in the rural areas. As farmers face a temporary shortage of cash, it could lead to a delay in payment which in turn would hurt the related companies in the short term.



Sources: Ministry of Statistics and Programme Implementation; PRS.

B.) Impact of Demonetisation on Manufacture: Clampdown on cash transactions and temporary cash crunch could hurt purchases particularly in the economy segment of the two wheeler space where the percentage of cash transactions have been high. However, as companies learn to work around it, demand may pick up by overall growth in consumption on the rural as well as the urban side. The seasonal slowdown seen during November and December months could get more pronounced as consumers delay purchases due to temporary liquidity crunch and expectations of rate cuts. Slackness in the economy on account of demonetization could have a negative impact on the commercial vehicle volumes which have been under pressure in recent times. According to the government's latest growth estimates, the pace of growth will be impacted by slowing growth in the manufacturing and mining sectors and also construction activity. This estimate is in line with the forecast of India's central bank, Reserve Bank of India, which in its last monetary policy had forecast GDP growth to be at 7.1 percent for the twelve months ending March.

C.) Impact of Demonetization on Service Sector:-. The outlook is near-term negative as cash sales account for a significant chunk of sales for companies in these sectors. As

customers and companies migrate to the cashless platforms, demand should come back making demonetization near term neutral. In the long term, demand may shift from the unorganized players to the organized players

D.) Impact of demonetization on FMCG industry

FMCC industry had gone down by 1-1.5% or Rs 3,840 crore in November, compared to October. The

Purchase in November had gone down by 6.4% compared to October. Purchase of personal care items such as toilet soaps, toothpaste and shampoo had seen the greatest fall by retailers. According to consumer point of view, one out of five housewives had reduced spending by 50% or more. They had cut spends across categories for impulse categories such as biscuits, salty snacks compared to everyday essentials like atta, rice, pulse, sugar.

E.) Impact of demonetization on loan from banks in India.

After demonetization announcement deposition in Indian bank has increased, According to reserve bank

India, deposits crossed 5 trillion rupees from 10th November to 18th November. Due to this many banks

like SBI, ICICI, HDFC PNB reduced their deposits rates.

As directed by the Government, the 500 and 1000 Rupee notes which now cease to be legal tender are to be deposited or exchanged in banks (subject to certain limits). This will automatically lead to more amounts being deposited in Savings and Current Account of commercial banks. This in turn will enhance the liquidity position of the banks, which can be utilized further for lending purposes. However, to the extent that households have held on to these funds for emergency purposes, there would be withdrawals at the second stage. Effect on Online Transactions and alternative modes of payment: With cash transactions facing a reduction, alternative forms of payment will see a surge in demand. Digital transaction systems, E wallets and apps, online transactions using E banking, usage of Plastic money (Debit and Credit Cards), etc. will definitely see substantial increase in demand. This should eventually lead to strengthening of such systems and the infrastructure required.

F.) Impact of demonetization on Indian financial market

After demonetization Indian financial market has been followed just like secular falling trend. Nifty 50 fell approx 6.3% and S&P BSE Sensex Fell 5.9% from 8 November to 22 November.

CONCLUSION

The present study shows the impact of Demonetization on Indian economy's different sectors. GDP of Country slightly decreases as compare with the previous year but we cannot

say it will be same in future also. Demonetization in India is a great effort taken by Indian government to combat with black money and corruption. It is a bold decision taken by government. The main purpose of demonetization is eradicating the black money and reduces the corruption. Government of India has become success to some extent. Most of the black money has been crushed. Amount of cash liquidity increased in the bank day by day. And anybody knows if the bank has more deposits then bank become stronger. The country in which bank is strong then that county is more financially strong. In future banks will able to do more and more loans to the individual and to the industrial sectors sot that production will grow in our country, employment will be generate, and our country can develop at very fast rate. But this is only future perfections; upcoming few months will show the actual economic condition odour country.

Although Demonetization has create so many hurdles for the citizens of India. Citizens of India faced so

many problems due to the demonetization drive; they faced queue problems in the banks and ATM'S for

depositing and withdrawing money. Citizens of India faced problem of less consumption of goods due to the lack of cash liquidity. Several businesses disrupted due the lack of liquidity, business owners as well as

consumer faced so many problems. When government took this bold decision about the demonetization in India, government didn't know that Indian citizen will have to face this kind of problem for a long time. But government has given so many remedies to the citizens of India for time to time. On the other hand, Indian financial market, real estate market, FMCG Sector, Auto assets backed loans etc.all is declined for a short time. Some economics expert said that positive impact of demonetization will showed in future. Government has also increased the withdrawal limits. The queues in front of banks and ATMs have reduced. Somehow black money also comes out. Now we should wait and watch the overall impact of demonetization drive.

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