



DEMONETIZATION AND ITS IMPACT ON ECONOMY, BUSINESS AND CITIZENS IN INDIA

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ABSTRACT

Indian government has taken a challenging decision on ban of Rs.500 and Rs.1000 notes on 8th Nov2016. Central government was a judicious, well-thought out and well-implemented step, and whether it would really eradicate all the existing black money, illegal activities, terrorism, and corruption and enhance the investments through Jan Dhan accounts and increase the proper tax payments from individuals, businessmen and corporate businesses. Here I have utilized the opinions of great expert on economics, financial economist and intellectual politicians. This study will help us to know about the positive and negative impact of note ban decision taken by Indian government on economy, business and citizens of India. This study is based on both primary data, which is collected through structured questionnaire and secondary data, which is collected from news papers, magazines, websites from internet, some useful books related to topic etc.

Keywords: - Indian government, note ban, economist, expert, opinion, corruption, black money and terrorism.

INTRODUCTION:

Demonetization is going to be a landmark in the history of the Indian economy. It was an experience which might create fear in the minds of the people who indulge in illegal activities like tax evasion or money laundering of any kind.

On November 8, 2016, the Indian government declared that the 500 and 1000 rupee notes will be stripped of their status as legal tender effective from midnight. These notes accounted for 86 percent of the country's cash supply by value. Citizens were given time till December 31, 2016 to deposit their old currency notes and exchange them for the new currency notes of rupee 500 and 2000. The government's aim was to root out counterfeit currency, fight tax evasion, curb inflation, eliminate black money and terror-funding, and to promote a cashless economy.

When a currency note of a particular denomination ceases to be a legal tender, it is termed as demonetization. Legal tender refers to money which can be legally used to make payments of debts or other obligations. A creditor is obliged by law to receive such money in payment of due debt to him.

The term demonetization is not new to the Indian economy. The highest denomination note ever printed by the Reserve Bank of India was the 10,000 rupee note in 1938 and again in 1954. It was demonetized first in 1946 and then in 1978. Since not many people had access to such notes at the time, this did not have a big impact on the country.

The latest round of demonetization has undoubtedly affected the common public and bankers. It has had many short term effects which are visible. The long term effects are yet to be experienced and felt.

There are so many reasons, why governments demonetized their nation's currency. Some reasons are like resisting inflation, resist corruption, and discourage a cash system in the country.

REVIEW OF LITERATURE:

Dr. Partap Singh, Virender Singh (2016), they both studied on impact of demonetization on Indian economy and they concluded that, Indian shares have been fallen slightly more than the other Asian markets.

Dr.S.Balamurugan, B.K.Hemalatha(2016), they both done on Impacts on demonetization: Organized and Unorganized Sector, they both concluded that, business houses are an integral constituent of the country's economy. While medium and large scale business is unaffected to such ban, many small-size commercial establishments are deeply affected by such sudden move by the government. The demonetization drive will affect some extent to the general public, but for larger interest of the country such decisions are inevitable. Also it may not curb black money fully, but definitely it has major impact in curbing black money to large extent.

LokeshUke (2017), he done an article on demonetization and its effects in India and he concluded that 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.

OBJECTIVES OF THE STUDY:

1. To study the present outcomes of demonetization.
2. To study the impact of demonetization on economy, business and citizens of India.
3. To estimate the consequences for future of the note ban decision.

SCOPE OF THE STUDY:

This study will helpful for the citizens of India, Indian government, businessman and the Indian customers. Through this study government will be able to know about the future conditions of the economy. This study will help to the government for policy making to the betterment of the economy. This study will also helpful for the Indian citizen because they would be able to know the present and future condition of the economy and they can take rational decision on their income and expenditure. Any businessman can also take the wise decision so that he will be able to generate more revenue and can earn the profit in the actual market

scenario. Finally everybody would be able to know the impact of note banned decision on Indian economy as well as Indian markets.

DATA COLLECTION:

The present study is mainly based on the secondary data. Secondary data collected from library, text books, and journals, articles from news papers and from relevant websites available on internet.

THEORITICAL BACKGROUND:

In November 2016, The Indian government has taken a bold step to demonetize the 500 and 1000 Rs (fully ban). Currency notes, these two biggest denominated notes accounted 80% of the currency supply. The government's main objectives of note ban is, to eradicate counterfeit currency, resist tax evasion, destroy the black money, and terrorist financing activities, and to encourage the country towards the cashless economy. This decision taken by government is for welfare of the nation, but so many questions comes in mind that, would note ban decision actually eradicate the black money, if does then at what extent black money will come out. What should be the

SIZE OF THE IMPACT:

India's GDP is \$2,000 billion (Rs 125 lakh crore) and estimated parallel economy is 23 percent, which makes it about Rs 28 lakh crore. A large percentage of this amount is divided in real estate, gold, and cash. Real estate accounts for more than 50 percent and the rest 50 percent is equally divided between cash and gold. Around 68 percent of that cash is kept in denominations of Rs 500 and Rs 1,000 notes. A back-of-the-envelope calculation shows that Rs 3 lakh crore or \$45 billion will flow into India's white economy, which is equivalent to GDP of more than 100 countries!

THE IMPACT OF DEMONETIZATION:

A. FINANCIAL/BUSINESS IMPACT:

1. People with large amount of black money are using unscrupulous means to convert it into legitimate currency

2. A taxpayer has to stand in queues to withdraw his hard-earned money.
3. Online companies are having the last laugh as most of the white income class is resorting to online.
4. Small/medium sized businesses relying on cash transactions are seeing a total demand collapse.
5. Gem and Jewelry business will be hard hit.
6. Real estate prices will fall and the transactions volume will drop.
7. Second-hand car market will crash badly.
8. CAs will be having a time of their lives.
9. Banks will be having a tough time. They will be flooded with cash.

Sectors in the economy such as Construction, Agriculture, and Forestry & Fishing which employ a large number of daily wage workers and have liquidity preference witnessed a decline in growth. Agriculture grew by 2.3% in Q1 of 2017-18 as compared to 2.5% in Q1 of 2016-17, Construction grew at a rate of 2.3% in Q1 of 2017-18 and witnessed a drop of 0.2% since the Q1 of 2016-17.

Manufacturing, which is the most important indicator of economic growth and employment, has grown at a very slow rate post demonetization. It grew by only 1.2% in Q1 of 2017-18 as compared to a massive growth of 10.7% in Q1 of 2016-17.

**Quarterly Estimate Of GVA At Basic Prices In
Q1 Of 2017-18 (at 2011-12 prices)**

Industry	April - June (Q1)				
	(Crore) Gross Value Added for Q1			% Change Over Previous Year Q1	
	2015-16	2016-17	2017-18	2016-17	2017-18
Agriculture, forestry, & fishing	371468	380833	389732	2.5	2.3
Mining and quarrying	87294	86485	85911	-0.9	-0.7
Manufacturing	458128	507223	513139	10.7	1.2
Electricity, gas, water supply & other utility services	55324	61018	65289	10.3	7
Construction	222464	229321	233919	3.1	2
Trade, hotel, transport, communication & services related to broadcasting	474733	516958	574261	8.9	11.1
Financial, insurance, real estate & professional services	594754	650607	692522	9.4	6.4
Public administration, defense & other services	293784	318963	349356	8.6	9.5
Total	2557949	2751407	2904128	7.6	5.6

B. POLITICAL IMPACT:

BJP will gain tremendously. Modi's portrait could replace Gandhi's portrait in coming time on the walls of government offices.

- All parties will join hands to paint the demonetization scheme as a big scam.
- Normal life may be impacted because of demonstrations.
- BJP may do reasonably well in Punjab and UP elections.
- No cash doles out in elections. Whole electioneering will change forever

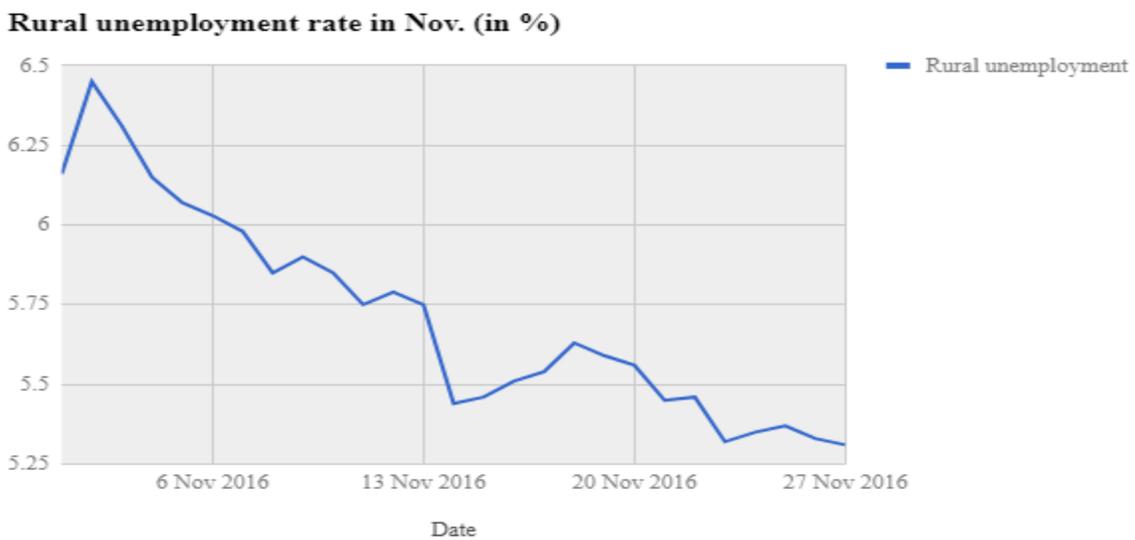
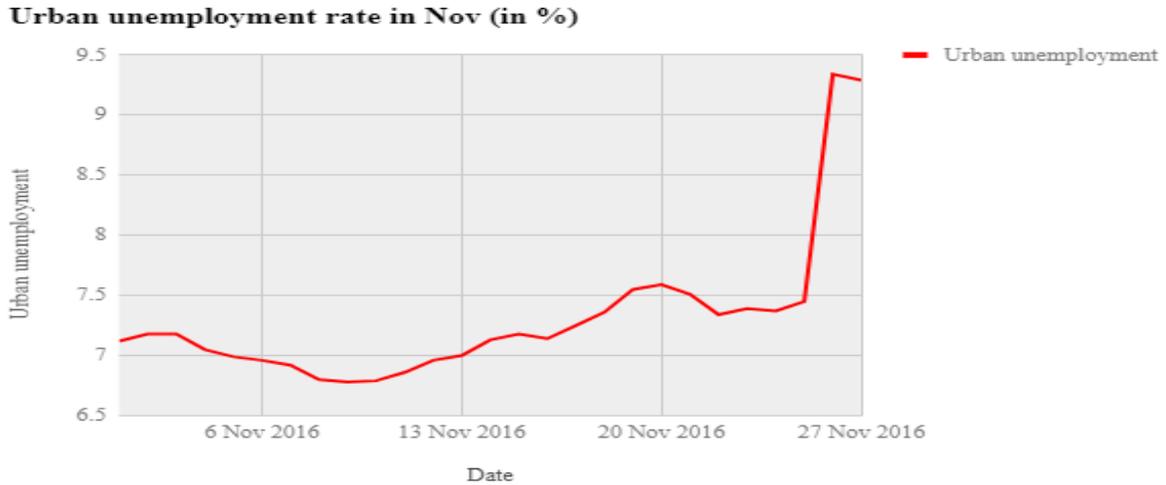
C. SOCIAL IMPACT:

- Low-income people have been impacted as their payments are delayed.
- Some people may commit suicide
- Cashiers and bankers will get due respect in society.
- Marriages to become cheap. Death of dowry.
- All medicines in white money.

- Big blow to gambling.
- Death of drug mafia and terror networks.
- People now know moral status of their peers and neighbors better.

D. IMPACT OF EMPLOYMENT:

Urban unemployment rate (30-day running average), which was dipping, saw a spike from November 9, 2017 onwards, the day after demonetization was announced.



Data source: Centre for Monitoring Indian Economy

E. IMPACT ON INDIAN ECONOMY

- GDP will be impacted as consumption will fall -Indirect tax collection may be lower
- Disorganized work to move to organized sector

Macro-Economic Aggregates at Constant Prices (Base Year: 2011-12; Amount in Rs Billion)							
Year	GVA at Basic Prices	Consumption of Fixed Capital	NVA at Basic Prices	Indirect Taxes Less Subsidies	GDP at Market Price	NDP at Market Price	GDP Growth Rate
2011-12	81069.46	9171.75	71897.71	6293.83	87363.29	78191.54	6.5
2012-13	85462.76	10106.61	75356.14	6667.41	92130.17	82023.56	5.46
2013-14	90636.49	11006.1	79630.39	7377.21	98013.7	87007.6	6.39
2014-15	97190.23	11807.24	85382.99	8179.61	105369.8	93562.6	7.51
2015-16	104905.1	12641.93	92263.21	8904.88	113810	101168.1	8.01
2016-17	111854.4	13479.37	98375.03	10044.14	121898.5	108419.2	7.11

Source: Handbook of Statistics on Indian Economy 2016-17

DEMONETIZATION MAY BENEFIT INDIA IN LONG TERM:

1. Income taxes rates may come down.
2. Loans will become cheaper.
3. Housing will become affordable.
4. Asset classes
 - Bonds prices to increase in the near future
 - Real estates to fall
 - Gold rates to fall.
 - Equity markets to gain in next six to 12 months
5. Impact on economy
 - Fiscal deficit will come down
 - Currency to become stronger
 - Industry will become more productive

- Inflation will come down as housing prices will drop and food inflation will come down
- Tax rates will come down as more people will be in tax net
- Business will be able to borrow at cheaper rates
- FDI to sky rocket

6. Social impact

- The society will become more equitable with lesser class distinction.
- Prosecution for people who are engaging in black money.
- Some slum dwellers may actually have to pay taxes and lose their BPL status
- Politics may change forever.

As with all good things, there is a bitter truth here as well. The black money may reemerge as now there is Rs 2,000 notes so paying bribes will be much easier. In fact, if the same government does not come to power again, then there is risk of reversal of some of these policies. Bribes may be paid in gold, foreign currency or smaller denomination notes, or through consumer durables. The whole plan may boomerang as there is a complete demand collapse and people lose their jobs in the unorganized sector in the near term. So there is need for strong administration and effective policy framework to make sure these initiatives are implemented in the same nerve as they were intended.

CONCLUSION:

Demonetization has been praised as well as criticized on various grounds. There has been a lot of opposition regarding the implementation of this policy. In the short run, there have been problems related to liquidity crunch, unemployment, loss of growth momentum, and a temporary halt to major economic activities. All this is evident from the data provided by the RBI.

The long term effects of Demonetization are yet to be ascertained. It is expected that it can improve the Indian economy in the long run by increasing tax compliance, financial inclusion, consequently improving the state of the economy. It can boost the GDP by increasing the availability of funds for lending and also by reducing transaction costs if the economy moves to digital modes of payments.

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