



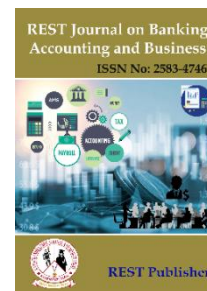
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## Demonetization and its effects on Indian economy

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**Abstract:** Indian government has taken a bold decision on note ban on 08/11/2016. Central government was a judicious, well-thought out and well-implemented step, and whether it would really eradicate all the existing black money. 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. 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. This paper entails the problems related to pre and post demonetization period and thereby to find out solutions and to provide suggestions in order to overcome the problem. Demonetization is the process of withdrawal of a particular form of currency from circulation. The purpose of the study is to compare and analyse the impact of demonetization on Indian economy during pre and post period. The older denominations must be replaced with the new ones. The findings of the study reveal that India will achieve a significant growth by adopting the demonetization strategy and will create a huge positive impact on the entire economy in a long run. This paper also shows that it was quick step taken by the government of India without any measures which people had to face a lot of consequences in standing in the long queues to exchange their older denominations.

**Keywords:**-Black money, Currency Denominations, Demonetizations Entails, Financial Economist, Intellectual politicians, Indian Economy, Note Ban.

### 1. INTRODUCTION

“Demonetization is the act of stripping a currency unit of its status as legal tender.” The idea of demonetization was bought by prime minister of India Narendra Damodardas Modi to stop black money circulation. The old unit of currency must be demolished with the new ones. It’s an effective way of curbing black money. On November 2016 the government took the great initiative to crack down on black money in the country. Fiji, Singapore and Philippines were the country after India who have opted for demonetization. The reserve bank of India has withdrawn the old Rs 500 and Rs1000 notes. People who had this higher value of notes were given an extended period till January 2017. It was an important decision taken by the pm of India against bureaucrats, politicians, business class people, terrorists, smugglers, drug dealers or the black marketing people who were engaged in unlawful activities which would lead an harmful impact on environment as these notes would no longer be legal tender from midnight, 8<sup>th</sup> Nov 2016. In India demonetization was required to track fake currency, tax avoidance, etc. So the curbing of black money can lead to positive impact in the country’s economy. It’s an process of removing black money completely. It’s a step against parallel economy, so we need to corporate with prime minister along with the government of India for this great decision taken by them. It will create a better future for the coming youths. Due to demonetization, India would turn cashless and everyone will start doing easy transactions, i.e credit card. So the elimination of black money can lead to positive impact in many ways. The progress would lead to drastic change in all other factors. In India we can see that each and every citizen is above poverty line. More of black money can lead to change in country’s economy. Demonetization will help the Income Tax Department as money will be caught so the terror funding activities couldn’t occur. Terrorism is a threat to our country, if black money is completely thrown out then there would be a reduction in the crime rate. Therefore our country will be in the safe hands and condition of living will be improved. Tax revenues are increased which is a benefit of demonetization. People had to face a lot of problems as it was a quick step taken without any preparations. IT Department was able to find black money at a larger scale. Demonetization helps in catching illegal forms of money through various means. In India, due to demonetization there would be a lot of changes soon everyone will go cashless through online transactions, Debit card. Demonetisation helps to control inflation. It helps to promote cashless economy. However the older denominations were allowed to get converted into euros for some period of time. It will help in smooth

transition. In 2015, Zimbabwe also took this crucial step of demonetization to overcome the problem of hyperinflation. According to RBI reports on 31st march 2016, denominations of Rs 500 and Rs 1000 notes were consisting around 86% of the total cash and was having an approximate value of Rs 15.44 lakh crore. Demonetisation was an important step taken by the Pm to tackle problems such as terrorism, corruption and all means of illegal money. It will also help to remove fraudulent money. This move proved very helpful in cleansing the formal economy of the country and discarding black money. Many previous attempts made have resulted into good and few recorded adverse effect on the country's economy. In the present Indian economic conditions, the long term impacts are left to be registered. The short term effect has brought a negative result in the country's economy. Luxury commodities were in shortage of prices which was bullish hit in the economy. Pm modi is also organising various campaigns like "jan dhan bhojana". These organizations work towards digital India. All transactions should be performed through cashless means.

## **2. REVIEW OF LITERATURE**

Guru and ShrutiKahani (2010), Researcher analysed the black money income? Need for amendment in DTAA & ITEA and analysed that black money is spread everywhere in India up to a large extent which continuously stashed towards abroad in a very large amount. The researcher also identified how black money had caused menaces in our economy and in what ways it is used. Tax Research Team (2016), the main objective is to analyse the impact of demonetization on Indian economy and it shows the impact of such a move on the availability of credit, spending level of activity and government finances.

Sukanta Sarkar (2010) conducted a study on the India's parallel economy: Causes, impacts and government initiatives in which the researcher focused on the existence of causes and impacts of black money in India. According to the study, the main reason behind the generation of black money is the Indian Political System that is the Indian government just focused on making committees rather than to implement it. The study concludes that laws should be implemented properly to curb black money in the economy.

AbhaniDhara K. (2017) posits that this Demonetisation is proving to be more successful than the previous two. The era is changing. People are using online banking as a mode of payment. Bank employees are giving their best to make the demonetisation a successful one. Their support matters a lot. Though the demonetisation move has failed to grab total black money in the economy, this has at least created fear in the minds of people holding black money. He concluded that demonetisation was a compulsory step to tackle the problem of black money, terrorism and corruption etc.

Veerakumar, K. (2017) posits that the announcement of demonetization of 500 and 1000 currency notes by the government is a big shock to the citizen of India. The highest currency notes are withdrawn from the economy to counter the problem of tax evasion, counterfeit currency and financing of terror activities. It is shown that huge money is being deposited into the bank accounts which are more than specified limits and are subject to penalties and taxes. Usage of e - wallets, debit and credit card has been increased tremendously and this will create better cashless infrastructure.

## **3. RESEARCH METHODOLOGY**

### **Objectives of the study:-**

- To analyse the current immediate impact of demonetization on Indian economy.
- To know the positive and negative impact on economy.
- To work out the probable consequences of Demonetization.
- To understand meaning and reasons of demonetization.

## **4. DATA COLLECTION METHOD**

The data collection method means the various sources from where the data has been collected by the researcher. For the purpose research secondary data collection, the researcher has used various materials such as newspapers, websites, articles, etc. related to the topic. Due to unavailability and shortage of time books weren't used. The secondary sources helps to explain the review of literature of the project and helps to provide detailed information related to the topic.

## 5. REASONS BEHIND DEMONETIZATION

To tackle black money in the economy. To lower the cash circulation in the country which “is directly related to corruption in our country? To eliminate fake denominations and dodgy funds which are being used by terror groups to raise terrorism in India? To fight Black money, corruption, terrorism and counterfeit currency with one single decision Evasion attempts after demonetization Converting black money into gold Donations in temples and other Multiple bank transactions Booking large number of tickets in railways and airways Depositing money in the accounts of their parents, relatives and friends Enticing people with some percentage of money for exchange

**Some positive effect of demonetization on the economy is as follows:**

**1. Break Down of Black Money:-**Black money accumulation affects a country’s economy in a negative way. It helps in shutting down the trading of goods or services which are runned through illegal means and thus destroying the savings and having a positive impact on its economy.

**2. Real Estate:-**Real Estate is one of the industries that run largely on black money. Demonetization stops the flow of black money in the real estate sector to ensure a fair system.

**3.Increase in Bank Deposits:-**The circulation of the old currency notes are banned and those who are having these denomination notes should get their money deposited in the banks so that there is no wastage.Hence,cash amounting of millions of rupees get deposited in the banks.

**4. Cutting Monetary Support for Terrorist Activities:-**Anti-nationals support terrorist activities in the country by providing monetary support to the terrorist groups. This money helps helps them to purchase arms and ammunitions. Due to demonetizations funds which they were using would be completely vanished and thus promoting peace and harmony among people.

**The idea behind demonetization was**

1. To eradicate black money

2. To increase digital transaction

3. To remove counterfeit notes

4.To prevent Naxal activities and terrorist activities Regarding black money government has told in parliament that 4.9 lakh crore rupees deposited in various accounts is under scrutiny .If this is true then the Indian government will get 2.5 lakh crore in taxes next year and 1.5 lakh every year in taxes in the future from this unearthed money. The digital transactions has increased then dipped and now settled at 107 lakh crores in July in the year 2018. Due to demonetization the Naxal and terrorist groups which were engaged in throwing stones has completely stopped .This can be assessed by the reduction in Naxal attacks and drastic reduction in stone pelting in Kashmir post demonetization which will help to maintain peace and unity among the citizens of the country. Demonetization is a disruptive economic tool in the hands of government which are also known as policy makers to control the cash flow in the economy.



FIGURE. 1

**Some negative impact of demonetization is as follows:**

**1. Liquidity crisis:** Demonetisation gave rise to liquidity problems in the economy as people found it difficult to get sufficient amount of cash to fulfil their basic needs. Marginal section of the society mainly depends on cash to meet their transactions held daily. Out of total currency in circulation 500 rupees notes constituted nearly 49% in terms of value. More the time is required to resupply Rs 500 notes, the more will be the time period of liquidity crisis. Consumption: Cash shortage adversely affected the consumption behaviour of people in India. The sales of consumer durables likely to be hampered in short-term, especially sales through unorganised channels are cash purchases. Most of the purchases by retailers are through cash which brought down their value of trade.

**2. Decrease in GDP:** Withdrawal of higher denomination notes reduces the growth rate of the economy. Demonetization reduces consumption pattern, income, investment, etc. This may bring down in India's growth rate as the liquidity crisis itself may last 3-4 months.

## 6. FINDINGS

The data was collected from secondary sources. Secondary data was collected from multiple websites and journals. In the View of general public it is learnt that demonetization was not only the last resort to clean economy but also had both positive and negative economic impact. They have agreed that in developing countries demonetization could be favoured rather than opposing it. As per the Indian market and Society, demonetization can be favourable to reduce the corruption in India and stabilise the economy to a major extent. It was seen that the common man had to suffer due to quick implementation made by the government as there were long queues seen outside the bank for many days. However on the other hand the black was curbed through many corrupted civilians. It has also led to a digitalized India where we can see many retailers and wholesalers supporting digital money transfer and supporting the country to "go cashless". It was a major step taken by the government of India to curb the black money and also few more steps can be taken in similar and different ways to end the corruption completely

Demonetisation is a bit serious problem. The move by the government to demonetise the old denominations with the new ones has surprised the country. The move was an effort to handle the threat of illegal money, corruption, terror funding and counterfeit currency. According to people they have agreed that demonetisation is a good effort taken by the government of India; it would bring about a positive impact on Indian economy as it encourages the digital modes of payment such as E-wallets and apps, online transactions. It is a move towards cashless economy. Demonetization is beneficial for the economy in the medium to long term. The decision taken by the government of India was quick so some were against it. However, majority of them believe demonetisation hasn't reduced corruption in India. And major strengths of Indians believe that demonetization will help to stabilize the economy.

## 7. SUGGESTIONS

Demonetization was a measure step taken by the government of India to deal with black money which was is in abundance in Indian market and society. All ATM's should have both withdrawal and deposit facilities, regular and biometric facility. Educate everyone about the use of e-wallet and Debit and Credit Cards. Camps should be organised at village levels and city levels at each and every corners. Give every businessman, who has current account with banks, swipe machine at the earliest possible. Incentivize savings and private Investment. Cut down on lending Rates. Scrap the income tax in a decent manner. Simplification of GST End the raid culture Agriculture needs global push Roll back the customs duty on gold.

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