

Impact of Demonetization on the Various Sectors of Indian Economy

Dr. Vinay Chandra¹, Surabhi Srivastava² and Mayank Jindal³

¹Assistant Professor, Department of Commerce, M.B. Government P.G College, Haldwani, INDIA

²Research Scholar, Department of Commerce, M.B. Government P.G College, Haldwani, INDIA

³Research Scholar, Department of Commerce, M.B. Government P.G College, Haldwani, INDIA

³Corresponding Author: mayankjindal.512@gmail.com

ABSTRACT

Demonetisation is an act of cancelling the legal tender status of a currency unit. It is a process when the government pulled out a unit of currency from the total circulation of the economy. The concept of demonetisation is not new, at first French used demonetisation then after most of the countries has adopted demonetisation to clean up the economy from corruption and inflation. India has adopted demonetisation three times: At first in January 1946 when RBI demonetised Rs. 1000 and Rs. 10000 currency notes, and again in 1978 by Moraji Desai of Rs. 1000, 5000, 10000 banknotes were demonetised and both demonetisation were held to eradicate black money. But the term Demonetisation became familiar on 8 November 2016 when P.M. Mr Narendra Damodar Das Modi announced Rs.500 and Rs.1000 currency notes will be no longer as legal tender status from the past midnight to unearth the corruption, black money and terror funding. Therefore this research paper is an attempt to throw the light on effect of demonetisation launched by NDA Government.

Keywords-- Demonetization, Stripping Out, Demonetise, Scrap Currency Note, Ceased

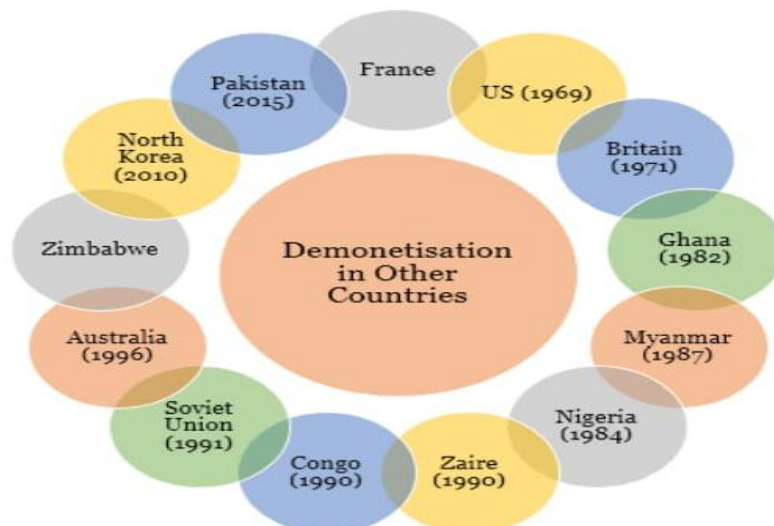
defined as the process in which currency of unit will not be status legal tender. Demonetisation termed as withdrawing unit of currency from circulation. When the government note which will be no longer as a legal currency is called demonetisation. Demonetisation is an act of cancelling the legal tender of the status of a currency unit in circulation. But as per the dictionary, the word demonetisation is used to end something e.g. silver or gold from circulation.

The Anti Black money day is called by then finance minister Mr Arun Jaitley of 8 November 2016 (Tuesday) when the honourable Prime Minister Mr Narendra Damodar Das Modi demonetised the high denomination of all Rs500 and RS1000 banknote of Mahatma Gandhi series which was 86% (15.41) lakh crore in total circulation with the objective to unearth black money, curtail counterfeit currency circumscribe terror funding and to wipe off corruption on an unscheduled live address at 8 p.m. Demonetisation being led by P.M. Narendra Modi was thrice on prior two occasions first on January 12, 1946. Rs1000 and Rs10000 note were rendered invalid by RBI. And second on January 16, 1978, when Janta Party Government came into power in the leadership of Moraji Desai banned the currency of Rs1000 Rs5000 Rs10000. In both cases, the goal was to combat tax evasion through black money.

As a consequence, not only India but also across the globe has adopted demonetisation at various intervals- Images of demonetisation of the world.

I. INTRODUCTION

An economic event which created history in the Indian financial system and became generation memorable experience of our time is demonetisation whose impact was felt by every Indian. Demonetisation is



II. REVIEW OF LITERATURE

Burse Sagar, (2018). It has been concluded that Indians are more tolerant in terms of the application of any new event by the government of India. During demonetization people had initially protested demonetization but by the time of 10 to 15 days they had accepted the fact that they had to comply with the decision of the government to take a chance to contribute to the Corruption and Black money free economy of India.

Mangal Aman, Kalyankar Kaustubh, B. Prof. Ravikumar, (2017). Only employment have any significant relationship with the other factors which resulted in view of people about impact of demonetization, reduction of black money and whether the digital mode is good or not. Only level of qualification is having a relationship with the view of people about whether the demonetization was applied correctly or not. The other factors were found non-significant due to the reason that the no of responses were found less to show any relationship between the factors affecting demonetization.

Shukla Bal Govind, Dr. Gupta Hariom, (2018). The whole crux of the study is that the people are actively supporting any initiatives taken by the government which are basically targeted to eradicate corruption, black money, and any other threats like terrorism and naxalism in the country. It could have witnessed from this point of view that no serious incident happened in any part of the country while 86 percent of the currency demonetized. People patiently returned and exchanged their currencies with having full trust to government. They are helping others and have positive attitude for demonetization. It has also been felt by us as my own perception found while this occurrence. As expressed by Students informally during data collection, he felt that the steps were tough but very necessary for country development.

Groppa Octavio, (2013). Complementary currencies may be a useful tool for local development, in so far as they generate an augment of the demand multiplier. The creation and maintenance of such systems, however, is not exempt from difficulties. Anyhow, the development of new technologies is greatly facilitating their development. The ease of access to the means of exchange can be of great importance for development, particularly its effect on reducing interest rates.

III. OBJECTIVES OF THE STUDY

- To know about the concept and meaning of demonetisation.
- To analyse the basic agenda of demonetisation.
- To study the positive and negative impact on the various sector of the economy.

IV. RESEARCH METHODOLOGY

The entire study nature is descriptive and describes some graphical analysis about the meaning, concepts and reasons for demonetisation with its positive and negative impact on the various sector of the economy. Secondary data have collected from the many research paper, Journal & publication articles, website and many others.

V. REASONS OF DEMONETISATION

Black Money and Parallel Economy

Demonetisation was a bold and revolutionary step against Black income which is the old and unhealed wound of India and has a deep impact on the parallel economy. In a minute, out of aggerating 17 lakh, crore circulation nearly 3 lakh crore (around 20%) is undisclosed income. On ban of currency note this income would be rendered invalid or just a piece of paper with having no purchasing power, so either it will all be deposited into a bank or would be destroyed. In both conditions, the economy would be tired out from black money.

Cashless Economy

Ceasing the currency of 500 & 1000 note from circulation proved a boon for digital transitions. In August 2016, 87 crores digital transition was there increased to 138 crores by Aug 2017. As per RBI reports, it has grown from Rs109.82 trillion to 124.69 trillion that were raised by 135%.

Counterfeit Currency

Fake currency sponsors the terror activities and also leading the inflation by more money supply in the market which is the incidence of concern. According to the Indian Statistical Institute; circulation of fake currency in India is Rs400 crore at a given point of time and 70 crores fake currency injected in India every year. The bold move of demonetisation was actioned as a surgical strike to decrease counterfeit currency of 500 by 59.7% and 1000Rs 59.6% after demonetisation; As per RBI, 7.62 lakh pieces of counterfeit currency note detected in FY'17'.

Terror Funding

Only in one master stroke Government has break three major challenges Black Money, Counterfeit Currency and Terror Funding of the economy. As the fake currency is the lubricant for terror funding which came to an abrupt halt on being demonetisation.

Other Reason

Demonetisation has been used as firearm not only for black money, counterfeit currency and terror funding but also to stabilize the inflation, increasing digital transaction, enhancing tax evasion, financial inclusion and making economy transparent.

VI. POSITIVE IMPACT OF DEMONETISATION

Bank

Influenced by demonetisation came on all the segments of the economy. Especially, the bank has played a vital role in the process of demonetisation and became major beneficiaries by accepting the deposits approximately 17 lakh crore till 30th December 2016 which boosted the economy without incurring any cost and drastically increased the liquidity of banks. Therefore, reduced their interest rate on lending around 1% as S.B.I. cut interest rate (0.90%) from 8.65% to 7.75% rate in post demonetisation.

Pradhan Mantri Jan Dhan Yojana

The first step was taken by Government with the launching of 'Pradhan Mantri Jan Dhan Yojana' on August 28, 2014, to demonetise banknote of 500 and 1000 Rs. Under this Yojana unbanked people were requested to open their bank accounts with zero balance. The day demonetization came to effect on November 9, 2016, total account holder was 25.5% crore with 45600 crore cash deposit which increased by 64200 (41%) to December 7, 2016, and 421.87 billion were total deposited till December 30, 2016, in 'PMJDY'.

After being demonetisation 23.3 million new accounts were opened and reached the total number of account 31.45 million with 80545.70 crore cash deposit on April 11, 2018.

Bond Market

Due to demonetisation, the entire banking system was full of sufficient liquidity inflow and the financial market works in liquidity. Hence, the bank would invest in bonds by which positive impact came on debt market post demonetisation.

Income Tax

It is a fact that demonetisation had a phenomenal impact on direct tax evasion, as per data available. Gross collection of direct tax was 6.63 lakh crore till November 15, 2016, this was more than 16.4% to the previous fiscal year. While the direct net collection was Rs10.03lakh crore in 2017-18 which is higher than 18% from 2016-17. Continued in the fiscal year 2018-19 corporate income tax growing 14% and personal income tax by 13% which shows a significant raise in tax collection even after two years of demonetisation.

Kashmir Stone Pelting

Demonetisation has not only attacked for black money but also on stone-pelting in Jammu & Kashmir. As they are paid 500Rs for throwing a stone on army soldier and 1000Rs for stealing a weapon. But by ceasing of these high-value denominations they become unemployed and 75% of stone pelting has been reduced in J&K which is admiring influenced.

Hawala Transaction

Hawala is the method by transferring money without actually moving. In the Hawala transaction, no physical cash movement would be there. It works with a network of operators called Hawala dealers. These Hawala dealers carry high denomination currency for Transaction and banned of high-value denomination of 500Rs & 1000Rs note heat was felt by Hawala dealers. By an intelligence report, almost 50% of spallation dropped out due to demonetisation.

Naxalism and Maoist

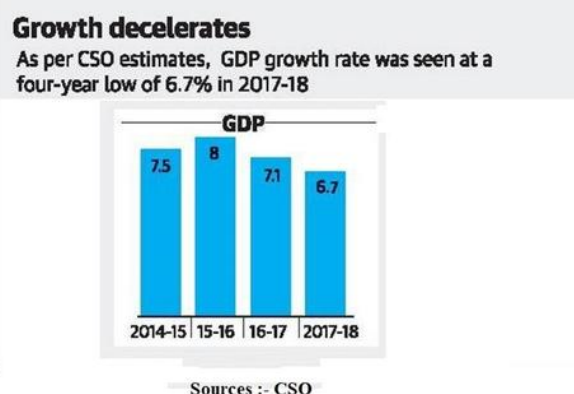
Demonetisation has proved a key factor in breaking the backbone of Naxalism and Maoist whom black money is the main source of funding which they keep crore in the high-value denomination and use to purchase arm and ammunition. On ceasing of high currency, these black money remain just a piece of paper. So, as consequence 20% decline came in naxalist activities and 55% arrest raised of Naxalism in the year 2017 as compared to 2015.

While 46.9 Maoist and their sympathizers have surrendered by which no major violence took place in the state like Andhra Pradesh, Orissa, Chhattisgarh, since demonetisation announced.

VII. NEGATIVE IMPACT OF DEMONETISATION

Gross Domestic Product

On 24 November 2016, former Prime Minister, 'Dr. Man Mohan Singh' said that this scheme can decline in GDP around 3% and the result came almost same there was a decline in the growth rate of GDP by at least 2% for point of October to December quarter 2016 when demonetisation was affected into the world's largest seven economies. As per RBI annual report 2017-18 – GDP decline in 2016-17 (7.1%) as compare to (8.1%) in the year 2015-16 and increased to (6.7%) in 2017-18.



Agriculture

India is an agriculture country around 70% people lives still in rural areas and depends upon agriculture which contributes 15% of India's output when demonetisation held farmers were engaged in either selling Kharif crop or sowing Rabi which could not be done successfully due to demonetisation. Even, National seeds corporation (NSC) failed to sell near about 1.38% lakh quintal of wheat seeds because of scrapping high value of the currency and had badly hit the agriculture sector.

Medium Small and Micro Enterprises (MSME)

Scrapping out 500 & 1000 currency led the further decline in several parts of the economy where MSME is one of them which contribute 8% to GDP, 40% to exports of the country and provide employment opportunities to 111 million Indians in which 74% of the workforce on a contractual and daily basis in the mode of cash, who suffered hardship on account of demonetisation.

Unemployment

Every coin has two sides, as demonetisation had it reflect positively along with some negative influence in which employment was one of the major negative sectors of the economy where 50 lakh people lost their jobs due to Bann of currency says Azim Premji university and 146 pages of the research report.

As per AIMO data shows that around 55% rate of the job were lost in trade and manufacturing sector and after demonetisation. And the centre for monitoring in INDIA estimated that 105 million jobs were lost since demonetisation.

Cash Crunch

The move of demonetisation removed 86% (15.41) trillion currency from the market which created prolonged cash shortage and disruption through economy so that people had to stand in long queues and some death was linked to the rush of exchanging cash.

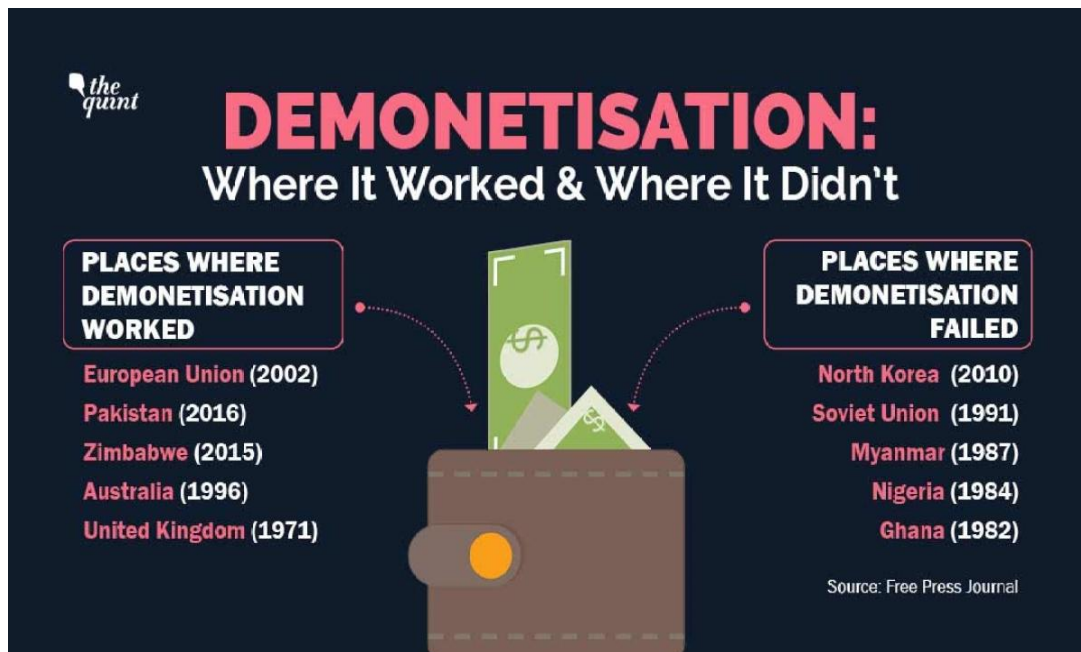
According to a survey, 92% respondent said that the major negative effect of cash crunch is for purchasing daily needs products and daily wages basis worker are not receiving their surface due to cash-dependent economy where 95% of all transaction conduct in the form of cash. And also reported that almost 15% ATM were running of cash due to cash crunch.

Cost of Currency

The first immediate negative impact of demonetisation influenced on printing cost of currency which RBI had to borne by spending 7965 crores Rs in FY'17 while the currency cost in FY'16 was 3421 crores and FY'18, 4912 crores Rs. Such spending value on printing currency decreases the dividend of RBI from 65875 crore Rs in FY 2015-16 to 30659 crores FY17 and also lost 21000 crores Rs to gain 16000 crores only.

Outcome of Demonetization in the Countries

Around the world almost every country puts the effort to mop the informal sector for making their economy transparent. Demonetization is one of the strongest policy which use against many illegal elements to keep the sine of nation. Since, many countries across the globe have imposed demonetization in various episodes, somewhere it had worked and somewhere it did not so, below is the glance.

**VIII. FINDINGS AND CONCLUSION**

On the basis of the study, it is found that demonetisation has affected not only every part of the

economy but Indian also effected some or large extend. And it was a historic step towards black money and corruptions.

The study analysed that in the period of demonetisation most of the segment of economy such as Bank, IT became a major beneficiary.

Having huge positive impact of demonetisation reflect some negative effect also as long queues outside of Bank and ATM in merciful condition people had to face a cash crunch, lost their job, the decline in GDP etc.

After analysing of the study of demonetisation it is observed that the intention of 2016 demonetisation was Nobale for making developed economy but the process of implementation was sadly not fairly planned so that it could not achieve its primary objective of black money as 99.3% (15.31) trillion money came blackout total (15.41) trillion demonetised currency only 0.7% (10720) lakh crore was not returned to Bank meanwhile Government estimation was (around 20%) black currency would not be black. So, the main goal of demonetisation to remove black money and corruption was met with limited success. On the other hand, it very successfully met its secondary objective which was tax evasion, terror funding, cashless trans. Counterfeit currency etc. Thus, the researcher has found that only behalf of black money it can't be denied from success and can be considered in fairly common conclusion that demonetisation will bring out 'short term pain in economy and long term gain in the economy'.

SUGGESTION AND LIMITATION

Demonetisation policy was the greatest financial reform to recognised the economy but the implementation

of the plan should have been with full of the excellent preplanned framework by government.

The study does not cover the impact of demonetisation on every sector of the economy.

The reliable conclusion can't discuss due to analyse only some segment of the economy.

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