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## Demonetization: Issues & Challenges on Indian Economy

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### Abstract:

*The contention set for demonetization is that the money that would be quenched would be "dark cash" and henceforth, ought to be legitimately stifled to set right the unreasonable motivator structure in the economy. While the actualities are not accessible to anyone, it is irresponsible to contend this is the main probability. Consequently, it is basic to assess the positive effects of demonetization is relied upon to have on the economy. Further, the effect of such a move would differ contingent upon the degree to which the administration chooses to remonetize. This paper illustrates the effect of such out of here the accessibility of credit, spending, level of action and government funds.*

Keywords: demonetization, cashless transactions, credit, black money, economy.

### Introduction:

Demonetization is the most critical and fundamental when there is a difference in national money. The old unit of cash supplanted with new money. Demonetization is where government announces the right now running cash notes illicit to be delicate after the presentation is made. There are the two advantages and disadvantages of demonetization in the Indian economy. The purposes behind demonetization are to control fake notes that could be adding to psychological oppression, and to undermine or dispose of the "dark economy". There are a few conceivably manners by which the pre-demonetization cash supply will stand modified:

- ❖ There would be specialists in the economy who are holding money which they can't clarify and consequently they can't store in the keeping money framework. This piece of the money will be smothered since it would not be supplanted in any way.
- ❖ The Government may supplant just a piece of the money which was available for use as money. In alternate words, the rest would be accessible just as electronic cash. This could be an instrument used to drive a progress to cashless medium of trade.

### Demonetization in India:

- ❖ 1946: Rs1,000, Rs5,000, and Rs10,000 notes were removed from course in January 1946. The Rs10,000 notes were the biggest cash section at any point printed by the Reserve Bank of India, presented without precedent for 1938. Each of the three notes were reintroduced in 1954 .
- ❖ Historically, past Indian governments had demonetized monetary certificates. In January 1946, banknotes of Rs1,000, Rs5,000, and Rs10,000 notes were removed from flow. The Rs10,000 notes were the biggest money group at any point printed by the Reserve Bank of India, presented out of the blue in 1938. In the year 1945 every one of the three notes were reintroduced.
- ❖ In 1977 Wanchoo panel (set up in 1970s), an immediate assessment request

council, recommended demonetization as a measure to uncover and counter the spread of dark cash.

- ❖ On 28 October 2016 the aggregate banknotes available for use in India was Rs.17.77 trillion (US\$260 billion). As far as esteem, the yearly report of Reserve Bank of India (RBI) of 31 March 2016 expressed that aggregate monetary orders available for use esteemed to Rs.16.42 trillion (US\$240 billion) of which about 86% [around Rs.14.18 trillion (US\$210 billion)] were Rs.500 and Rs.1,000 banknotes. They were removed from dissemination from 2016.

#### **Need for the Study:**

- ❖ The fake Indian cash notes in higher group have expanded.
- ❖ Unaccounted cash, regularly utilized as a part of any type of debasement and illicit exercises.
- ❖ The Financial Action Task Force, a worldwide body that takes a gander at the criminal utilization of the global budgetary framework, takes note of that high-esteem bills are utilized as a part of illegal tax avoidance plans, racketeering, and so forth.
- ❖ In the United States, the most astounding group certified receipt is \$100 and United Kingdom, the most astounding group certified receipt £50.
- ❖ The most astounding group note is basically 50-100 times the littlest category note of one dollar or on the other hand one pound.
- ❖ In India, as of not long ago the most astounding category note was Rs 1,000 and this was 1,000 times the littlest group note of Re 1 (Note: Re 1 notes are issued by the service of fund).

#### **Research Methodology:**

The paper depends on secondary information. The information has been gathered from web.

#### **Objectives of paper:**

- To contemplate the experience of effect of demonetization in different nations in past years;
- To investigate the current the quick effect of demonetization on Indian economy;
- To exercise the plausible results of the demonetization.

#### **Review of Literature:**

**Sukanta Sarkar (2010)** led an investigation on the parallel economy in India: Causes, impacts and government activities in which the analyst concentrated on the presence of causes and effects of dark cash in India. As per the investigation, the fundamental purpose for the age of dark cash is the Indian Political System i.e. Indian govt. simply centered around making advisory groups as opposed to actualize it. The investigation reasons that laws ought to be executed legitimately to control dark cash in our economy.

**Tax Research Team (2016)** in their working paper expressed for demonetization Its principle objective is to investigate the effect of demonetization on Indian economy. This paper demonstrates the effect of such out of here the accessibility of credit, spending, level of movement and government accounts.

#### **Issues & Challenges of Demonetization**

Demonetization technically is a liquidity stun; a sudden stop as far as money accessibility. It makes a circumstance where absence of monetary forms jams utilization, speculation, creation, work and so on. In this unique situation, the activity may create following here and now/long haul/, utilization/speculation, welfare/development impacts on Indian economy. The force of demonetization impacts unmistakably relies on the length of the liquidity stuns. Following are the fundamental effects.

1. Demonetization isn't a major calamity like worldwide saving money segment emergency of 2007; yet in the meantime, it will go about as a liquidity stun that aggravates financial exercises.

2. *Liquidity crunch (here and now impact):* liquidity stun implies individuals are not ready to get adequate volume of famous group particularly Rs 500. This cash unit is the good category in every day life. It constituted to almost 49% of the past money supply as far as esteem. Higher the time required to resupply Rs 500 notes, higher will be the length of the liquidity crunch. Current reports demonstrate that all security printing press can print just 2000 million units of RS 500 notes before the current year's over. Almost 16000 mnRs 500 notes were available for use as on end March 2016. Some part of this were filled by thenew Rs 2000 notes. Towards end of March around 10000 mn units will be printed and supplanted. All these demonstrate that money crunch will be in our economy for the following four months.

3. *Welfare misfortune for the money utilizing populace:* Most dynamic fragments of the populace who constitute the „base of the pyramid“ utilizes cash to meet their exchanges. The day by day breadwinners, different workers, little merchants and so forth who live out of the formal economy utilizes money as often as

possible. These areas will lose wage without fluid money. Money stringency will urge firms to diminish work cost and in this way lessens pay to the poor average workers.

There will be a stream up impact of the liquidity bedlam to the higher salary individuals with time.

4. *Utilization will be hit:* When liquidity deficiency strikes, it is utilization that will be antagonistically influenced first.

5. *Loss of Growth energy India chances its position of being the quickest developing biggest economy:* diminished utilization, pay, venture and so forth may lessen India's GDP development as the liquidity affect itself may last three - four months.

6. *Effect on bank stores and loan cost:* Deposit in the here and now may rise, yet in the long haul, its impact will descend. The reserve funds with the banks are really fluid money individuals put away. It is hard to expect that such prepared trade once put away out their hands will be put into reserve funds for a long haul. They spared this cash into banks just to change over the old notes into new notes. These are not intentional reserve funds expected to get intrigue. It will be changed over into dynamic liquidity by the savers when undeniable new cash supply occur. This implies new funds with banks is just fleeting or here and now store. It might be uncashed by the savers at the fitting time. It isn't essential that demonetization will deliver huge funds in the managing an account framework in the medium term. The vast majority of the investment funds are gotten by biggie open segment banks like the SBI. They may lessen financing cost in the short/medium term. Be that as it may, they can't tail it in the long haul.

7. *Effect on black cash*: Only a little bit of dark cash is really put away as money. Normally, dark wage is kept as physical resources like gold, arrive, structures and so on. Henceforth the measure of dark cash countered by demonetization rely on the measure of dark cash held as money and it will be littler than anticipated. Be that as it may, more than whatever else, demonetization has a major promulgation impact. Individuals are presently much persuaded about the need to battle dark wage. such an across the nation mindfulness and urge will urge government to turn out with even solid measures.

8. *Effect on fake money*: the genuine effect will be on fake/counterfeit cash as its dissemination will be checked after this activity.

### **Positive Effects Of Demonetization**

In what could be named as the mother of all changes, Prime Minister Modi's demonetization move will have broad ramifications. This isn't to debate that the transformative advance has brought some hardship for the residents, yet those are transitory and will blow over soon. For the bigger advantage of the country, we the nationals can hold up under such hiccups with a grin. All things considered, this is the manner by which we as residents can contribute in strategy making and country building. While bank representatives are working additional time to make Modi's driven demonetization drive a win, let's talk about its many-overlap impacts.

1. *Black cash*: At one stroke the Prime Minister has stifled the supply of dark cash stacked inside the nation. Of the Rs 17 lakh crore of aggregate cash available for use in the nation, dark cash is assessed at mind-boggling Rs 3 lakh crore. Dark cash is only a loot of the country. Dark cash administrators run a parallel economy which shakes the very establishment of the Indian

economy. With Modi's demonetization move, all local dark cash will either be saved into the saves money with overwhelming punishment or be essentially demolished.

2. *Economy*: demonetization will have an enormous resultant impact on the Indian economy. The tidy up of illicit money will help pivot the economy. To start with, it will convey more borrowings to the exchequer, enhance expansion standpoint and increment India's total national output (GDP). Second, it will resuscitate speculation openings and give a fillip to framework and the assembling part. Third, it will help decrease loan costs and lower pay impose rate.

3. *Note bank governmental issues*: In the keep running up to the essential get together decisions in Uttar Pradesh, Punjab, Goa and Uttarakhand, Prime Minister Modi's demonetization declaration has come as a sudden stunning exhibition for the political gatherings and lawmakers for whom dark cash is a life saver. The hauling out of the old Rs 500 and Rs 1,000 cash notes will help influence the race to process perfect and straightforward. Yet, it has brought extreme circumstances for the political gatherings and government officials who have confidence in buying votes in return for notes. That is unequivocally the reason a rainbow coalition of a cosmic system of territorial gatherings and the Congress is developing against Modi, in light of the fact that their political advantages are gravely stung.

4. *Land purifying*: It is said that land is an industry based on dark cash. The degree of dark cash skimming around in the segment is colossal. As per a gauge no less than 40 for each penny of land exchanges in Delhi-NCR are in dark. Modi's demonetization move will shorten the

stream of dark cash into the land segment. This will help in making the genuinely necessary rectification in the division. The effect: An unforeseen dunk in land and property costs.

5. Hawala exchanges: demonetization has disabled the hawala rackets. Hawala is a strategy for exchanging cash with no genuine cash development. Hawala course is utilized as a way to encourage illegal tax avoidance and dread financing. Hawala rackets run again on dark cash. With dark cash abruptly being wiped out of the market, because of demonetization, hawala activities have gone to a pounding end. As indicated by an India Today report, one of the hawala administrators in Mumbai has pulverized money notes worth about Rs 500 crores.

6. Fake money: demonetization has managed a final knockout to the fake Indian cash syndicate working both inside and outside the nation. Fake money genuinely downgrades the genuine worth of Indian cash. An examination led by Indian Statistical Institute, Kolkata for the benefit of the National Investigation Agency (NIA) recommends that phony Indian cash notes (FICN) adding up to Rs 400 crore are available for use in the nation at any given purpose of time and around Rs 70 crore counterfeit notes are directed into Indian economy consistently. The estimation depends on recuperation and seizure made by different offices. In any case, the real figure could be substantially bigger. A One India report, citing an Intelligence Bureau dossier, says counterfeit Indian cash worth Rs 12 lakh crore has drawn into Indian money related framework throughout the years. Obviously that a large portion of the phony monetary forms flowed in India are of Rs 500 and Rs 1000 groups. It is likewise apropos to specify that the phony cash coasting inside the Indian monetary framework isn't checked inside the Rs 17 lakh crore of aggregate money available for use in the nation.

This is an open mystery that Pakistan has been printing counterfeit Indian money at its administration printing press in Quetta and its security press in Karachi. The adversary country channels the fake money through the wilderness at Jammu and Kashmir and by means of India's permeable fringe with Bangladesh and Nepal. With Prime Minister Modi's choice to haul out the old Rs 500 and Rs 1,000 notes and supplant them with new Rs 500 and Rs 2,000 arrangement has totally slowed down the flow of fake Indian money. Specialists say the new cash notes have accompanied propelled security highlights which are relatively difficult to imitate. So Pakistan has no alternative yet to close shops of its phony Indian cash.

7. Terror financing: Terror financing is sourced through fake cash and hawala exchanges. This is the means by which dread financing works. Counterfeit money flow is steered through a multi-layered system of hawala administrators which are firmly connected to satta (betting) and pirating of medications, opium and arms. By implication, they all end up financing psychological oppression. Moreover, the psychological militants gather enormous gifts and afterward course the cash through hawala exchanges. With the flow of fake Indian money totally slowed down and hawala exchanges ceased, all windows for dread financing are shut.

8. Maoism: Maoist sympathizers call Modi's demonetization move an "undeclared money related crisis". There are motivations to it. Demonetization has hit the Maoists and their development hard.

Black cash is the oxygen for Maoists. As indicated by a gauge, Maoists figure out how to raise Rs 300 to Rs 400 crore yearly through gifts, demand and coercions. The unlawful cash is utilized to buy arms and ammo, nourishment and

medication and day by day basics, aside from conveying it among the positions and the unit. Police sources in both Chhattisgarh and Odisha have told the essayist that the Maoists have reserved old high section notes to the tune of over Rs 10,000 crore at their dumps in the thick wildernesses of Odisha-Chhattisgarh guest. No big surprise, with Modi's demonetization drive, each one of those unlawful cash are lessened to paper scrap. Maoists are in a condition of trance state and Maoist exercises see a devastating blow. As far back as the demonetization declaration was made, no real brutality was accounted for from the Maoist swarmed states like Chhattisgarh, Odisha, Andhra Pradesh and Telangana.

9. Kashmir issue: The four-month-long agitation in Kashmir valley is on a backburner, because of demonetization. No stone pelting on security powers has been accounted for in Kashmir as far back as the demonetization declaration was made. A knowledge evaluate proposes that Pakistan sends Rs 1,000 crore every year to the separatists for fueling agitation in Kashmir. The cash is exchanged through hawala course. With hawala transactions totally tore up, the separatists are presently dumbfounded. It won't not be right to state that "stone pelter" Modi totally smashed the Kashmir agitation with his stone called demonetization.

### **Short-Term Vs. The Longer-Term Impacts** **The Short-term Impacts**

There will be an interruption in the present liquidity circumstance as family units are probably going to get influenced by the note trade terms laid by the legislature. Despite the fact that clearness is unfurling on this, product exchanges and general money advertise exchanges are probably going to feel a quick effect. Sloppy segment procedures, including little exchange showcase exercises, will stay

unstable for the time being. Roadside sellers, taxicab drivers, kirana stores, and so forth., have effectively quit tolerating Rs 500 and Rs 1,000 notes. Note that a critical level of the Indian workforce is utilized in this division, which is probably going to be influenced by prompt liquidity issues. By and large, negative effect on extra cash is normal alongside likely disturbance in the utilization examples of the general masses. It is evaluated that there will be a negative GDP affect in the present quarter as utilization gets a stun in the prompt term. Be that as it may, quantum and level of this effect can't be discovered as of now.

### **The Longer-term Impacts**

This basically speaks to an adjustment in administration for the genuine and budgetary economy. Locally, there could be some turmoil as the impact will be lopsidedly felt by the lower and upper salary classes. Universally, the administration is probably going to get thumbs up for the move and more nations could possibly consider this to be a reasonable choice to control dark cash and stem illicit budgetary action. Last, however this move by the administration may not be an in the first place, having being attempted by before governments as a device to battle debasement. Such an activity accomplishes bigger importance for an all around associated India as it demonstrates intensity in handling an issue which has remained a thistle in the development example of overcoming adversity of this age.

### **The Sectoral Impacts**

While divisions with linkages to the sloppy economy are probably going to be influenced, innovation and budgetary administrations are required to pick up in the medium to long haul. On a sectoral premise, the items and rural division, including the market for shopper

durables and non-durables is relied upon to feel the warmth. In the short to medium-term, expansive category buys will probably be made by means of electronic buys as opposed to through physical outlets. This will affect the retail segment unfavorably. The land division is probably going to see a huge negative effect in the medium-to long haul, especially in the repurchase showcase. There are desires of a revaluation of current land exchanges no matter how you look at it speaking to conceivable misfortunes to players in the part. The extravagance merchandise showcase is additionally prone to get influenced as this move speaks to a disintegration of genuine riches to a huge Areas of sub-sectoral effect will be felt in extravagance autos, SUVs, pearls, gems, diamonds, gold and top of the line marked items. The land segment is probably going to see a huge negative effect in the medium-to long haul, especially in the repurchase advertise. There are desires of a revaluation of current land exchanges no matter how you look at it speaking to conceivable misfortunes to players in the part. The extravagance products advertise is likewise liable to get influenced as this move speaks to a disintegration of genuine riches to an extensive number of individuals. On the positive side, there is probably going to a reset of spending designs as this move speaks to in a roundabout way a critical push towards a cashless economy. Organizations in the balance tech part, including installment banks, versatile wallets, electronic exchange suppliers, and so forth., are relied upon to see picks up.

### **Conclusion**

In the event that the cash disappear, as a few hoarders might not want to be seen with their money heap, the economy won't profit. Then again if the cash discovers its way in the economy it could have an important effect.

However, encounters from various nations demonstrates that the move was one of the arrangement that neglected to settle an obligation troubled and swelling ridden economy.

The demonetization of the most elevated division note embraced by the legislature is a major stun to the Indian. The demonetization is taken for a few measures, for example, tax avoidance, fake cash and funding of unlawful exercises. A few people are saving cash notes in overabundance of determined points of confinement specifically into ledgers has demonstrated the unaccounted pay, subject to higher assessment and different punishments. Alternative payment strategies, for example, e-wallets, online exchanges utilizing e-keeping money, charge and Mastercard use have been expanded and this will move an effective cashless framework.

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