

# A Detailed Study on The Importance Of Demonetization & Its Impact On Economy

Monika Garg

Asst. Professor in commerce Dept. V.A.K.M, Bahadurgarh

## Abstract

*The argument set for demonetisation is that the cash that would be doused would be "dark money" and henceforth, ought to be legitimately stifled to set right the unreasonable motivating force structure in the economy. While the actualities are not accessible to anyone, it is imprudent to contend this is the main probability. In this way, it is basic to assess the short run and medium-term impacts that such a stunt is relied upon to have on the economy. Further, the impact of such a move would shift contingent upon the degree to which the government chooses to remonetise. This paper clarifies the impact of such out of here the accessibility of credit, spending, level of movement and government finances.*

**Keywords:** demonetization, cashless transactions, credit, tax evasion

## 1. INTRODUCTION

The government has executed a noteworthy change in the monetary environment by demonetising the high esteem currency notes – of Rs 500 and Rs 1000 category. These stopped to be legal tender from the midnight of eighth of November 2016. People have been given upto December 30, 2016 to trade the notes held by them. The proposition by the government includes the end of these current notes from flow and a continuous replacement with another arrangement of notes. Temporarily, it is proposed that the cash available for use would be generously crushed since there are limits put on the sum that people can withdraw. In the months to come, this press

might be casual to some degree. The reasons offered for demonetization are two-crease: one, to control fake notes that could be adding to fear based oppression, at the end of the day a national security concern and second, to undermine or dispose of the "dark economy". There are conceivably two manners by which the pre-demonetization money supply will stand modified in the new administration: one, there would be agents in the economy who are holding cash which they can't clarify and thus they can't store in the banking system. This piece of the currency will be doused since it would not be supplanted in any way. Second, the government may supplant just a piece of the

currency which was available for use as cash. In alternate words, the rest would be accessible just as electronic money [1]. This could be a system used to drive a change to cashless medium of trade. The observational degree of these two parts will be unwound just finished the following a half year. These two would affect the economy for the time being and in the medium term, as will be investigated beneath. To comprehend the impacts of these measurements, it is imperative to first comprehend would it be that cash does in the economy? There are comprehensively four sorts of transactions in the economy: accounted transactions, unaccounted transactions, those that have a place with the casual sector and illegal transactions [2]. The initial two classes identify with whether transactions and the relating livelihoods are accounted for impose purposes or not. The third classification would comprise to a great extent of agents who win wages underneath the exclusion limit and consequently don't have any duty liabilities. At last, there would be interest for cash for illegal purposes like influences in decisions, spending over endorsed limits, dealings in wrongdoing and debasement. On the off chance that one takes a depiction of the area of cash at any given purpose of time, it is hard to foresee what the separation of the cash as indicated by these classes would be, yet it is sheltered to state that each of these segments would be spoken to in that preview. Swinging to the impacts of demonetisation, the principal major and managed impact of demonetisation would take after from the degree to which the currency is doused and what this currency was being utilized for. It

is being expected that all currency which will conceivably be doused would be currency being utilized as a store of significant worth in the first and second class of transactions in the table above. On the off chance that this suspicion is right, at that point the impact of quenching this currency would be restricted. Then again, if the currency is utilized for any of alternate transactions in the economy, either as a store of significant worth or all the more imperatively, as a medium of trade, at that point the impact on the economy and the agents in the economy could be considerable. On the off chance that, for example, the quenched cash was utilized as a medium of trade in financing unaccounted wage generation or pay in the casual sector, demonetisation would bring about these exercises shutting down and a comparing diminishment in the livelihoods and business related with these exercises. The overflow impact would be felt by the composed sector too since the consumption from the earnings generated would reach out to the formal sector too. The following thing to ask would be: would these exercises/agents come quite close to the formal sector because of the changed monetary environment or would they stay outside or intensify the exercises and would be stifled alongside the misfortunes generated from the cash that was quenched [3]. The second change as talked about above, from demonetisation would emerge if just a piece of the currency kept in the banks is come back to dissemination as cash. This change, in the event that it is executed, would significantly change the financial environment in the nation by driving agents

to move from utilizing cash as a medium of trade to utilizing cash substitutes. This gives off an impression of being a genuine plausibility given that the Finance Minister and in addition the Governor of the Reserve Bank of India have more than once underlined that agents ought to move to the utilization of cashless medium where there are no issues in contrast with the cash based medium.

## 2. REVIEW OF LITERATURE

**Amartya Sen** (Leading financial expert; Noble Laureate; beneficiary of the Bharat Ratna) as indicated by Indian express, Professor Amartya Sen said that a large number of honest individuals have denied from their money and being endured to get their own money back. Dr. Manmohan Singh (Former Prime Minister; prominent financial analyst; previous RBI senator) As per Indian express, the previous prime minister, RBI senator, and financial analyst Dr. Manmohan Singh said in Rajya Sabha that this demonetization is a composed loot. In his discourse he said that, the way the plan has been actualized will hurt the agricultural sector in India, it will likewise hurt the little scale industry and casual sectors of the economy. He likewise said that India's GDP can falls around percentage point because of this note restricted policy. Agreeable banks which serves the rural areas are non useful and has been kept from cash. Previous prime minister likewise said that this note stricter policy is a stupendous bungle.

**Kaushik Basu** (Leading market analyst; Senior VicePresident furthermore, Chief

Economist at The World Bank) As indicated by Indian express, Mr. .Kaushik Basu said that government of India made policy that any individual who stores money past the utmost of 250000, have to pay colossal punishment. This policy made another black advertise, in which extensive measure of unlawful cash softened up to littler parts and kept by the individuals from group; which is a lawful method for illegal movement. Mr., Basu said this move is harming guiltless individuals who have no illegal money yet they have developed cash save over a drawn out stretch of time.

**Arun Shourie** (Former financial expert at the World Bank; beneficiary of the Padma Bhushan and Union Minister) As indicated by Indian express, Mr. Arun Shourie said in a meeting with NDTV, that this note restricted policy made by exhibit Indian government isn't jab on black money, in light of the fact that the proprietor of black money changed over their money into substantial and intangible assets. The people who have tremendous black money, they never keep money in cash, they never keep money under the sleeping cushion, or in gunny packs. They contributed their black money in properties, adornments, stock markets or in different assets [4].

**Arun Jaitley** (Current Finance Minister of India; Senior Advocate, Delhi High Court) As indicated by Indain Express Mr. Arun Jaitley gives his sentiment that the demonetization is useful for economy, Indian banks were confronting NPA issue since last numerous years, now banks will

have more money to loan for some sectors of the economy.

**Arvind Virmani** (Leading business analyst; Former India's illustrative at IMF; Former Chief Monetary Adviser, GOI) As indicated by arvind virmani demonetization is a valuable strategy to take care of the issue of black money, in any case, he additionally said that it require the more profound investigation to check the viability of demonetization. Prompt impacts of demonetization are negative effect in retail exchange goods and services. Cash for regular transaction must be supplanted soon.

**Surjit Bhalla** (Chairman, Oxus Investments, a Delhi-based monetary research/warning firm; Previous Professor at Delhi School of Economics; Beforehand worked at the World Bank) As indicated by Mr. Surjeet Bhalla BJP government take a Courageous advance, and the credit goes to our prime minister Mr. Narendra Modi. In the event that this progression would be fruitful then it will be greatest change in India. This policy will quietly make the money for the economy. Never keep money in cash; they never keep money under the sleeping pad, or in gunny packs [5]. They contributed their black money in properties, gems, stock markets or in different assets.

### 3. OBJECTIVE OF THE STUDY

1. To investigate the effect of Demonetization on GDP.
2. To investigate the effect of Demonetization on various sectors of economy.

3. To think about genuine present results of the note banned decision.
4. To know the capability of the note ban decision.
5. To appraise the results for future of the note ban decision.

### 4. RESEARCH METHODOLOGY

#### *Type of Data*

The present investigation is quantitative in nature and secondary data will be utilized with the end goal of examination.

#### *Source of Data*

The present examination depends on secondary data. The wellsprings of data incorporate the realities discharged by Reserve Bank of India (RBI), Exchange, Central insights office India and Different banks websites.

### 5. DATA ANALYSIS

#### A. Impact of Demonetization on Agriculture Sector

Agricultural development in India contracted 0.2% of every 2014-15 and became close to 1.2% of every 2015-16, generally in light of the fact that of consecutive droughts. It was relied upon to develop at 4% in this year according to CRISIL Report, yet because of Demonetization this figure is demonstrated wrong since Farmers are coming up short on Cash to purchase Seeds, Fertilizer, Equipments, and Wages payment to laborers and Commission to Agents and so on. Due to Cash deficiency day by day supply transport system has additionally endured

which was result in 25 to 50 % diminishment in deals. Following is the principle reasons;

1. Farmers are not taught and mindful about how to deal with E-Payment System, Recent examination by RBI Says 78% of the populace don't utilize web in which just about 80 to 85 % are Farmers.
2. In the greater part of the Villages Proper Banking system isn't Developed yet and Villagers are have to go to the urban areas for the same in view of that Farmer's more often than not is occupied with trading the old notes[6].

## **B. Impact of Demonetization on Business sector**

According to the investigation IPP says Growth in Business sector 0.7% in October 2016 however after eighth Nov.2016 Demonetization demonstrates an alternate picture in view of this decision work turnover is additionally expanded as absence of Production in light of law request of products individuals were buy just on the off chance that it fundamentally required, for this I have examined on following business sector

### ***Textile industry***

The vast majority of the Brands and Retailers Report 40 to 60 % drop in deals after Demonetization in initial couple of weeks in any case, from December onwards this drop is marginally diminish, yet at the same time we can state the effect of this decision has influence the business in 2017 additionally for no less than 3 to 4 months.

### ***Real Estate***

Demonetization crushed the real estate market and it will bring about half drop down and it will stay for advance 5 to a half year. While the fleeting effect is negative, Experts trusting that rate cuts in the coming months would support home deals.

### ***FMCG Products***

Purchaser uses likewise influenced by that decision now just those products are bought which was fundamental for day by day utilization and generally the little dealers like kirana store', small bodies', thela wala' and so on they all have done their every day transactions just in cash and on the grounds that shopper has less cash in his stashes the everyday offers of these dealers drop around 20 to 30 %. .It is likewise a transient effect in future things get typical [7].

## **C. Impact of Demonetization on Service Sector**

Service sector is hit extremely heard by Demonetization decision in November 2016 most noticeably awful Slump in about three year is noted. The Nikkei India Services Purchasing Managers' Index (PMI), which tracks services sector organizations on a month to month premise, remained at 46.7 in November, down from 54.5 in October. The Index slipped into withdrawal region out of the blue since June 2015 and indicated the most honed lessening in yield for just about three years. On other hand on the off chance that we discuss Banking Sector this is the main sector which was profited by that decision in numerous perspectives, this move will pull an expansive lump of first time clients to banks, who should utilize the system at any rate once to exchange their old notes for new ones. As per an investigation led by



Moody's, individuals tend to proceed utilizing banking services once they have crossed the 'first-time client' check. This development will build bank stores by 1 to 2 percent contrasted with what they were before the demonetization scheme.

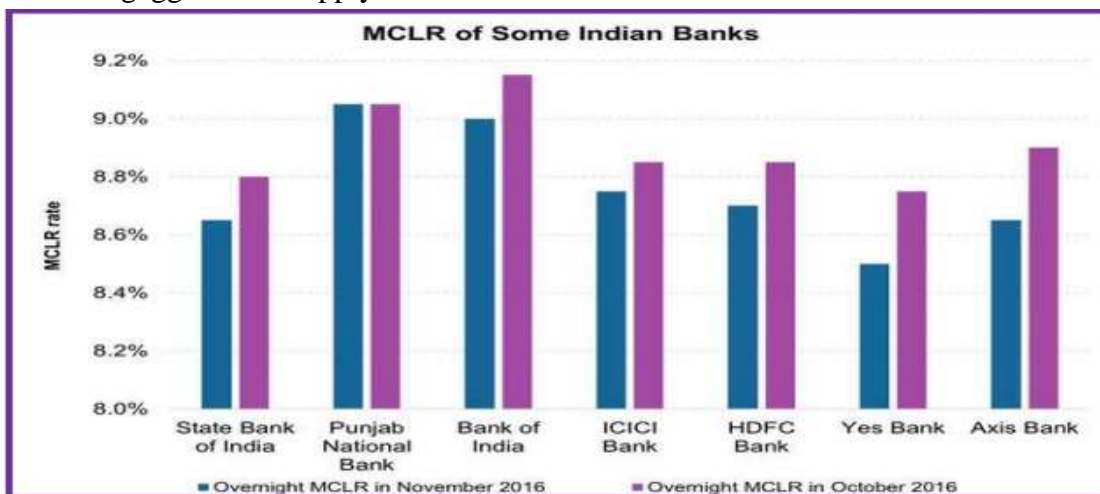
#### D. Beneficial outcomes of Demonetization

In what could be termed as the mother of all changes, Prime Minister Modi's demonetization move will have sweeping ramifications. This isn't to debate that the transformative advance has brought some hardship for the natives; however those are transitory and will blow over soon. For the bigger advantage of the nation, we the residents can shoulder such hiccups with a grin. All things considered, this is the means by which we as nationals can contribute in policy making and nation building. While bank employees are working extra time to make Modi's aspiring demonetization drive a win, let's talk about its many-overlap impacts.

**1. Black money:** At one stroke the Prime Minister has gagged the supply of black

money stacked inside the nation. Of the Rs 17 lakh crore of aggregate currency available for use in the nation, black money is assessed at mind-boggling Rs 3 lakh crore. Black money is only a loot of the nation. Black money administrators run a parallel economy which shakes the very establishment of the Indian economy. With Modi's demonetisation move, all domestic black money will either be stored into the banks with overwhelming punishment or be essentially annihilated.

**2. Economy:** Demonetization will have a colossal resultant impact on the Indian economy. The tidy up of illegal cash will help pivot the economy. To start with, it will convey more borrowings to the exchequer enhance inflation outlook and increment India's gross domestic product (GDP). Second, it will resuscitate investment openings and give a fillip to infrastructure and the assembling sector. Third, it will help diminish interest rates and lower income tax rate [8].



**Fig 1 Impact of demonetization on loan from banks in India**

## 6. CONCLUSION

The present investigation demonstrates the effect of Demonetization on Indian economy's distinctive sectors. Gross domestic product of Country marginally diminishes as contrast and the earlier year yet we can't state it will be same in future moreover. This intercession is a one-time depleting of this present stock of black money however unless the main drivers of defilement are Evacuated, defilement will proceed. It is similar to a dialysis, even more a transient tidying up than an answer of the issue. It should be rehashed periodically.

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