

## **Study of the Impact and Effects of Demonetization on the Economy System of the Indian Population.**

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### **Abstract-**

**Demonetization** is a situation where the Central Bank of the country withdraws the old currency notes of certain denomination as an official mode of payment. According to investopedia Demonetization means the act of stripping a currency unit of its status as legal tender. There are multiple reasons why nations demonetize their local units of currency. Some reasons include to brush-off inflation, to brush-off corruption, and to dispirit a cash system. The process of demonetization involves either introducing new notes of the same currency or completely replacing the old currency with new currency. Indian government adopted demonetization on 08 November 2016 to tackle with black money and make India a cashless digital economy. As per the yearly report of Reserve Bank of India of 31 March 2016 that total currency notes in circulation is 16.42 lac crore of old Rs. 500 and Rs.1000 banknotes. As per the report of RBI dated on 14-12-2016, the total amount of old notes of value of Rs. 12.44 lac crore has been deposited by the customers till 10-12-2016. Banks started accepting deposits from 10 November but within a period of 15 days approximately half money has been received by the banks.

### **Index Terms-**

Demonetization, Cashless Transactions, Cash Crunch, Digital Economy.

### **I. INTRODUCTION**

The 'demon' in demonetization is in the beginning. Any Government withdraws the legal tender rights of any denomination of currency, it is known as demonetization. On November 8, Indian Prime Minister Mr. Narandar Modi announced in a broadcast to the nation that Rs. 500 and Rs. 1000 currency notes would no longer be recognized legally as currency. The total currency in circulation in India was Rs. 16.42 lac crore (US\$240 billion) of Rs. 1000 and Rs. 500 notes. The government believe that this demonetization is required for the four main reasons first reason is for stopping the funding of

terrorism, second reason for facing the problem of fake Currency, Third reason for making the black money worthless and fourth reason for reducing the corruption, etc. The need for the government to keep the move a secret because the tax evaders would not be aware before the announcement of demonetization took place. For Modi, this is work in progress. In his speech to the nation, he highlights what his government has done so far. Narandar Modi has prompted it will take 50 days for people to adjust to the change. This announcement appears to be the most important change made by the Narandar Modi's government to date, says Girish Vanvari, partner and head KPMG in India. A decision like this can result in the sweeping up of a system for which many trust that it could not be done, as earlier attempts did not have rich impact. However, the decision by Prime Minister Mr. Narandar Modi is one the most historical steps in India. A decision like this can help control inflation, recapitalise banks, minimizing the interest rates and making the economy vibrant, with capital inflows.

India is the second most populated country in the world with nearly a fifth of the world's population. Out of the total 121 crore Indians of Indian population, 83.3 crore of population live in rural areas while 37.7 crore stay in urban areas, said the Census of India 2011. As a rural populated country most of the rural population are engaged in agricultural activities as most of the population of rural areas depends on agriculture. Agriculture forms the backbone of the country's economy. The agricultural sector like forestry, logging and fishing accounted for 17% of the GDP contributes most to the overall economic development of India. it is the largest employment source and a important piece of the overall socio-economic development of India The states of Uttar Pradesh, Punjab, Haryana, Madhya Pradesh, Andhra Pradesh, Telangana, Bihar, West Bengal, Gujarat and Maharashtra are key contributors to Indian agriculture.

## **OBJECTIVES OF PAPER**

- To study the impact of demonetization on common person of India
- To study the impact of demonetization on agricultural sector and farmers of rural India.
- To study the impact of demonetization on economy of India.

## **RESEARCH METHODOLOGY**

The paper is based on secondary data. The data has been collected from internet, articles newspapers etc. Graph and percentile method has been used to analyze the data.

### **Impact of demonetization on common person of India.**

Demonetization is a generation's memorable experience and is going to be one the economic events of our time. Its impact is felt by every Indian citizen. As the country says goodbye to the old Rs. 500 and Rs. 1,000 rupee notes and with restrictions on exchanging money and taxation on high amounts of deposits, Indian economy had faced through some serious churns. But how is this going to affect the common person of India in the short run as well as the long run. Initially, there was a huge hue and cry

about the idea, people had to wait in really long queues just to withdraw the necessary money they needed. The public doubted prime minister's plan and revolted against the bad preparation they faced in this regard. The changes did invite a lot of trouble to the public in the beginning but it all seemed worth that, as far as the long-term effects were concerned. There was a limit to the per-capita withdrawal and that was a huge issue for many people, mainly because of their personal requirements which included marriage, health, property etc. In the process of curbing black money the innocent common people and poor had seemed most suffered like, those people who do not have access to post offices and banks had seemed panicking for exchanging notes.

Those families who had weddings and other special occasions are depressed due to lack of money thousands of weddings have been cancelled which impacted the vendors who supply for those weddings. Also, farmers have faced lot of problems because they could no longer afford to sell their harvest from Kharif crop or sow Rabi crops. Also Many street vendors have loosed their business because do not want to part with cash or cannot make change. People have cut back spending because the banks are rationing cash. Many Daily wage workers are unable to find work. Also Demonetization has a direct impact on sectors dealing with cash—vendors, auto rickshaw owners, taxi drivers, daily wage earners and small traders. The Indian system mainly functions on cash, and so, less cash means disruption in the flow. Therefore, the government's step to curb black money and fake currency has hit hard to poor people the most. But as the time passed the things slowed down a bit. The queues in the banks shortened, ATMs were filled with money, new currency circulated and all these normalized the situation. Nevertheless, this change will have a huge impact on the economy. It will take some time for things to become normal again and for now, it is just a play of time till we get to know whether it was a really good decision or an overrated implication.

The demonetization of Indian currency has created numerous hardships to common person but in long way it has lot of advantages.

1. To the extent of penalties imposed by the Income Tax department on the illegal conversion of black money into white money, the revenue to the government will increase in the immediate future.
2. Unaccounted monies held as cash which was not productive will become productive as it enters the legal system.
3. Counterfeit money in circulation which was a ongoing menace all over India will cease to exist with immediate effect.
4. Funding of terrorist and other illegal activities will be curtailed as they generally are funded by black/counterfeit money.
5. To the extent the black money held by the political parties is flushed out, the elections in the near future will be clear and more transparent.
6. With huge cash at the disposal of the banks, the borrowing of money will get cheaper providing impetus to economic growth.
7. Government can avail finances at lower rates and speed up the infrastructural spending creating huge job opportunities.

So far, it can be said that this is a historical step and must be supported by everyone. We should look at the bigger picture which will definitely fetch results in the future. This is what the whole country has been asking for a long time which has finally happened.

### **The impact of demonetization on agricultural sector and farmers of rural India:**

Agriculture plays an important role in the Indian economy. Over 70 % of the rural households depend on agriculture. Agriculture is the backbone of Indian economy as it contributes about 17% to the total GDP and provides employment to over 60% of the population. It also provides raw materials to leading industries such as cotton textiles and sugar industries. The number of various agricultural commodities like tea, coffee, spices and tobacco constitutes our main items of exports. This amounts to almost 15% of India's total exports. Hence agriculture provides foreign exchange which helps us to purchase machines from abroad. It also maintains a balance of payments and makes our country self-sufficient. Agriculture has brought fame to the country. India holds first position in the world for the production of tea and groundnuts, Indian agriculture has registered speedy growth over last few decades.

### **The following graph shows GDP from Agriculture of India**



Demonetisation has affected every Indian, but it has hit the agricultural sector badly. Agriculture in India accounts for 50 percent of the workforce. Farmers, who are the backbone of our economy, were severely affected by the note demonetization of 8 November 2016. Agriculture is impacted through the input- output channels as well as price and output feedback effects. Sale, transport, marketing and distribution of ready produce to mandis is dominantly cash-dependent. Farmers suffered a setback due to nationwide cash shortage and a fall in the demand for vegetables in wholesale markets. . Farmers were not able to purchase inputs like seeds from market. They were using old seeds from the last year harvest and not purchasing new quality seeds from market. In northern Indian states, the crop of rice

was prepared. Some of the farmers have sold their crops, and some was in the process. It is true that almost crops are sold in cash the transaction which has been done is cash is to be deposited in the banks and can be withdrawn accordingly. The consumers of rural farmer is not as advance as the urban middle class, which can be easily managed with a very little amount of cash. The problem of the demonetization is largely associated with the rural areas of the country have lesser number of banks and ATMs compared to the urban areas and semi-urban areas. The problem was not the inaccessibility of the banks and ATMs, but the limit on cash which can be withdrawn. A farmer can take a day out from his busy schedule and manage to go to bank and get the cash back, however the limit on the amount withdrawal forces him to do that again and again and the banks in rural areas are some 20 or 30 kilometres the roads in rural areas can make it look like 50 kms. Repeating that 4 or 5 times in a week can be exhaustive. However, the limit has been exceeded than before and government is taking other necessary formalities which would ensure that the farmer does not have to commit suicide. If the income of peon working in government services and farmers of our country is compared since 1964, the income of peon has increased 1000 % and that of farmers by meagre 19%. Besides those negative effects of demonetization there is also hope of every Indian farmer upon demonetization that this historical step will concrete our economy and also fruitful for our country in future.

**The various effect of the Demonetisation would be very positive for farmers are:**

- With plentiful money, the government become able to complete the incomplete irrigation projects so that more land comes under irrigation and two crops instead of one crop in a season can be taken by farmers. This will double up their income as our Prime Minister Mr Narandar Modi has promised to do.
- The interest rates of banks started falling which could reduce the capital cost and farmers can now go for farm mechanisation.
- Government can build cold storage chain thereby minimize the wastage which are 80, 000 cr annually.
- The intermediaries and commission agents blooming on black money will be minimized and farmers can directly deal with consumers and they can credit instant payments to their bank account.
- The owners of essential commodities like pulses, grains, potatoes onion etc will run out of cash and will not be able to rig the prices. The farmers and also consumers will be benefitted as the price would remain stable.
- The quality of fertilizers will improve in that the nutrients contents will not be depreciated.
- The Government can conclude the pending electricity generating projects so that the farmers who are suffering by lack of proper electricity will get more electricity so that he can run their drip irrigation system and save water.
- The national portal made for farmers of the country will be more effective as the farmers will have wider market instead of local and District mandies. They will get more prices for their production with payment directly in their bank accounts.
- Farming becomes more viable and there will be reverse migration to villages from cities. The smart phone holder children of farmers will not now shy from working on farm in future.

**The impact of demonetization on economy of India:**

India has a mixed economy. The economy of India is the sixth-largest economy in the world measured by nominal G.D.P and also the third-largest by purchasing power parity. The country is known as a newly industrialised country, as one of the G-20 major economies, a member of BRICS and a developing economy with an average growth rate of approximately 7% over the last two decades.

**This graph shows the yearly growth of GDP of India.**



The World Bank has predicted the GDP growth rate of 8 % for India by 2017 and said that a strong expansion in the country, coupled with favourable oil prices, would accelerate the economic growth in South Asia. In India, GDP growth is expected to accelerate to 7.5 per cent in fiscal year 2015/16. It could reach 8 per cent in FY 2017/18, on the back of significant acceleration of investment growth to 12 per cent during FY 2016-FY 2018, Indian economy is the fastest growing economies among all emerging nations. At the same time, India's economy is very much sensitive to any uncertainties that happen in the world. On 8th November 2016 Narendra Modi banned the circulation of Rs. 500 and Rs. 1000 currency notes to curb black money in India, it will definitely affect Indian economy in near future. In the short run, people will face some difficulty in getting cash as trading of high-value notes is banned and a limit imposed by government on withdrawal of the cash from the ATM and banks. This will reduce liquid cash with people and they will start consuming less. As Indian GDP is consumption driven, demonetization will impact GDP of the country for next one or two quarters. People owing black money will deposit their cash in banks. So the liquidity with banks will increase and they can lend more money in the market. The supply of money in the market will definitely increase and hence interest rates will reduce which will boost investment in the country. As the investment will increase obviously production of goods and services will rise, which will lead to growth in the employment in the country and hence income of the people will definitely increase. As the disposable income of people will increase, consumption of the goods and services will also increase which will ultimately increase GDP of the country. Another positive impact of demonetization is those people who are depositing their black



money in the banks have to pay taxes to the government which will lead to increase in government savings. The government can use these savings for further investments (government spending) and hence increase in GDP.

## II. CONCLUSION

Demonetization is a one step of many steps in fighting corruption, black marketing, and financing insurgency. However preparation for demonetization was lop-sided, and its impacts were terrible on Indian public. If 86% of cash is taken out, with a meagre amount available, all market transactions have been killed. The people, who were targeted, did not come on streets, but common folk are out from their work places as well as homes. , Somebody put a parable on social net. For killing ten

crocodiles, government pumped out all water from the pond results killing ten thousand fish in pond but Crocodiles walked off on dry sand. With an intention to rid the country of black money and dig out tax defaulters and black money holders, government has taken step to demonetized Rs 500 and Rs 1000 notes. This move will have major impact on the parallel economy but sudden announcement and failure to prepare in advance has created temporary chaos and discomfort among the general public. Common Men are finding it difficult to buy with no money in pocket, wasting hours in queues which although could have been avoided if planned in advance.

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