

Demonetization and Its Impact on Indian Economy

Authors : Komal , Saurabh Gupta,CA Hemraj kumawat

- 1.Komal (Ex. Assistant Professor shriram college of commerce)
- 2.Saurabh Gupta (Ex.Assistant Professor shriram college of commerce)
3. CA Hemraj kumawat (Assistant Professor shriram college of commerce)

ABSTRACT

This paper discusses the impact of the crucial step of demonetization taken by Our Hon'ble PM Narendra modi on 8th November, 2016 and announced that currency of denomination of Rs .500 and Rs.1000 would not be a part of legal tender .It was a step to curb black money and fake currency notes. The country was in surprise as no time was provided to manage liquid funds . Curbing black money was in election manifesto of ruling govt. but this would be solve in such a manner was indeed a surprise. People with non considerable amount of liquid cash will be forced to bring out their hidden income .

Key words – demonetization , corruption ,black money ,terrorism funding, impact on sectors

INTRODUCTION

Demonetization It is a radical financial step in which a currency unit's status as a legal tender is declared invalid. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be removed and introduce with a new currency unit.. On Nov. 2016 the currency is demonetized third time by the present Modi government and before of this decision there was also demonetization took place in indian history in 1946 for the first time and in 1978 for the second time. This is

the bold step taken by the govt.for the betterment of the economy and country. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit. this step was more necessary to stop terrorists activities and drug cartels. Nevertheless , demonetization measures gives a valuable measures that it is the time that people need to well versed in non cash transactions

REASONS FOR DEMONETIZATION – WHY IT WAS INDEED THIRD TIME IN INDIAN HISTORY

- to combat inflation
- to combat corruption and crime (counterfeiting, tax evasion)
- to discourage a cash-dependent economy
- to facilitate trade
- boost deposit base and saving
- Improve monetary transmission and reduce lending rates
- financial inclusion via Jan Dhan
- Support government finances

DEMONETIZATION IN INDIAN HISTORY

This was first happened in 1946 when the Reserve Bank of India demonetized the then circulated Rs 1,000 and Rs 10,000 notes. Higher denomination banknotes in Rs 1,000, Rs 5,000 and Rs 10,000 were introduced eight years later in the year 1954. These very notes were again demonetized by the Moraraji Desai government in 1978. The highest denomination of notes printed by RBI was denomination of Rs.10000 first in 1938 but these notes

of denomination Rs. 10000 was demonetized in January 1946 but again introduced in 1954.

LITERATURE REVIEW

Sukanta Sarkar (2010) conducted a study on the parallel economy in India: Causes, impacts & 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 i.e. Indian govt. just focused on making committees rather than to implement it .The study concludes that laws should be implemented properly to control black money in our economy.

Tax Research Team (2016) in their working paper stated in favour of demonetization Its main objective is to analyze the impact of demonetization on Indian economy. This paper shows the impact of such a move on the availability of credit, spending, level of activity and government finances.

IMPACT OF DEMONETIZATION ON PEOPLE AND VARIOUS SECTORS

POSITIVE SIDE OF DEMONETIZATION

- ❖ This step of indian govt.helped to curb terrorism as terrorist activities were funded by unauthorized currency and black money . this would bring all such activities in passive form .
- ❖ Promote DIGITAL INDIA PROGRAMME as people had to visited banks for exchange of their money of denomination rs.500 and rs.1000 and that would strengthen jandhan yojana scheme.
- ❖ This move will make it possible on the part of the commeners top purchase houses.
- ❖ Promote people to deal in all business transactions in fair and legal way this will boost the economy in long run and a viable initiative for strengthen tax funds of govt.
- ❖ Since currency of Rs 500 and Rs 1000.denomination have changed with a new currency notes hence it's a check on fake currency.
- ❖ With nearly five state elections in 2017, demonetization has stunned political parties. Especially, in large states like Punjab and Uttar Pradesh, cash

donations are a huge part of "election management". In one stroke, big parties will find themselves hamstrung as cash hoards are often undeclared money. Parties will have to completely rejig campaign strategies in light of expected cash crunch.

- ❖ Demonetization will likely result in people adopting virtual wallets such as Paytm, Ola Money etc.: This behavioural change could be a game changer for India.
- ❖ This stand of indian govt. demonetization as a genuine stand against tax evasion and the black market. Increased financial inclusion and transparency are of course fantastic goals, and if achieved, would alleviate poverty and increase productivity

NEGATIVE SIDE

- Country like India with 1.23 billion population and with major portion of poor and illiterate . this step created situation of confusion and conundrum.

- Stock markets with such speculation likely to fall down
- This has resulted in deficiency in liquidity thus slowdown in economy.
- Small manufacturing houses and labour class were badly hit by this situation as they do all transactions in cash.
- Online retail stores temporarily stopped cash on delivery facility Successful online retail stores in India like Flipkart, Amazon, Snapdeal and other online retailers have either temporarily stopped offering cash on delivery services. According to a research firm named Redseer Management, about 70% of the e-commerce orders are still paid for in cash.
- This demonetization has caused chaos throughout India. [The Indian Express](#) reported that at least 33 people have died as a result of demonetization, with causes of death ranging from people collapsing of exhaustion after waiting in the queues for the bank,

IMPACT ON INDIAN REAL ESTATE – POSITIVE AND NEGATIVE

Usually, black money is used to purchase the following items – gold, precious metals, precious stones, real estate, high end consumer goods, high-end liquor, drugs, and entertainment as huge sum of amount indulge in all these activities of purchasing luxurious things .In real sector one expects to see results in the short run .With contraction in demand from one set of agents – say agents who have earned unaccounted incomes and placed them within the real estate space – either prices within this segment would fall or transactions would cease to happen. While of itself, this would be considered a positive development and evidence of a correction in the unaccounted incomes, it could lead to a compression in investments in the construction sector which can have adverse income and employment consequences for the economy.

Impact on Primary Sales: NO, because the new property market which is primarily

driven by home loans usually has minimal cash component in its transactions. Chances of prices coming down in the new property market as a result of demonetization is very low. About Primary Real Estate Market Primary real estate in simple terms is the fresh inventory sold out to buyers directly by developer or builder. It is called primary because it represents the first sales cycle. As and when a resale of the property happens, it goes into the secondary market zone. Black Money & Primary Real Estate Although black money does find its way in the primary real estate, it is very insignificant part of the payment system. This is majorly because builders and developers have their own obligations with banks and financial institutions. They would always prefer a payment by cheque rather than cash. Demonetisation is expected to bring a fall in inflation rates. With limited

money floating in the economy, the inflation rates are expected to fall in the next 2-3 quarters.

With demonetisation, a huge shift has been seen towards a cashless economy. All the transactions, now being done through cards, will not only bring ease but also transparency. This will lead to an economy that is more aligned to global compliance standards and an industry with high levels of corporate governance making it easier for foreign entities to invest in India.

Going forward, one can expect more stability in prices as black money used to have power to disrupt prices. All this will help in increasing investor confidence in the real estate market.

NEGATIVE IMPACT ON REAL SECTOR

The real sector is the biggest receiver of black money, so it will take a massive hit. Insiders say there's a 40%-plus drop in enquiries and sales across key markets of Mumbai, Delhi, Bengaluru and Pune The sudden ban on ₹ 50 and ₹ 1000

currency notes has resulted in a situation of limited or no cash in the market to be parked in real estate assets. The average number of transactions with regard to registrations on properties was at 3700 per day with an income of ₹ 13.28 crore. During the past two months, the number of registrations fell by 45% and income fell by nearly 50%.

The move has taken the real estate sector by a storm and the foreign investors have lost their trust in the current government. Moreover, money has become dearer, leading to cautious spending and minimal transactions. Insiders say there's a 40%-plus drop in enquiries and sales across key markets of Mumbai, Delhi, Bengaluru and Pune. Deals in secondary market have come to a standstill. In Bengaluru, drop in deal closings is as much as 60%. Most homebuyers are waiting for big price reductions. With fear of black money transactions and cash crunch added to an already

slumping real estate sector, near future is bleak.

IMPACT ON MICRO BUSINESSES

Indian Micro Small and Medium Enterprises (MSME) sector contributes considerable share in India's GDP. But amongst all the three, medium sized enterprises have share of around one per cent and they generally use online mode for their payment and receipts. But Small and Micro, especially micro businesses faced lot of problems as most of the transactions take place on cash basis, because many people are not that educated and techsavvy. So the move demonetization has hampered micro businesses in a bad manner resulting into slowdown in micro enterprise sector. d) E-wallet firms could gain good business A digital wallet is an electronic device which allows an individual to make electronic commerce transactions like payment of bills or online bookings etc. An individual's bank account can also be linked to the digital wallet. The examples of wallet

in India are- Paytm, PayU India, MobiKwik, and Freecharge and so on. Such E-wallets are expected to be the biggest beneficiaries of the decision of demonetization taken

IMPACT ON BANK DEPOSITS AND INTEREST RATE:

Deposit in the short term may rise, but in the long term, its effect will come down. The savings with the banks are actually liquid cash people stored. It is difficult to assume that such ready cash once stored in their hands will be put into savings for a long term. They saved this money into banks just to convert the old notes into new notes. These are not voluntary savings aimed to get interest. It will be converted into active liquidity by the savers when full-fledged new currency supply take place. This means that new savings with banks is only transitory or short-term deposit. It may be encashed by the savers at the appropriate time. It is not necessary that demonetization will produce big savings in the banking system in the medium term. Most of the savings are obtained by biggie public sector banks like the SBI. They may reduce interest rate in the

short/medium term. But they can't follow it in the long term.

CONCLUSION

Demonetisation is not a complete and all encompassing end in itself .its a part of process which must be forward through additional allied and subsidiaries policies.chances were provided by the govt. to illegal money holders on the terms of disclose their income and pay 50% of it as taxand penalty the no further question about source of income will ask.

Demonetisation has been a good move aimed at reducing black money and removing corruption from the country. Although, it has adversely impacted the businesses which are heavily cash dependent such as consumer durables, agriculture, real estate etc. but this measure will bring about a 'less cash revolution' in Indian economy. However, the execution should have been better. Printing of enough currency and recalibration of ATMs could have been facilitated with more research and recommendations of an expert panel at the idea stage itself. A fairly common conclusion is that demonetisation move will cause

short term pains but also it will lead to growth gains in the long term.

Effect on parallel economy: Cash Economy to Witness Contraction The currency of the aforementioned denominations constitutes around 86% of the total value of the currency in circulation. It was expected to remove black money from the economy as they would be blocked considering the holders would not be in a position to deposit the same in the banks, temporarily halt the circulation of large volumes of counterfeit currency and curb the funding for anti-social elements like smuggling, terrorism, espionage, etc. (factly, 2016).

<https://www.adamsmith.org/blog/the-very-real-impact-of-indias-demonetization>

<https://edupediapublications.org/journals/index.php/IJR/article/view/6214/6002>

http://www.huffingtonpost.in/rana-kapoor/7-reasons-why-demonetization-is-a-masterstroke-by-modi_a_21603007/

References

<http://www.squareyards.com/blog/wp-content/uploads/2016/12/Demonetization-Whitepaper.pdf>

Sukanta Sarkar (2010). "The parallel economy in India: Causes, impacts & government initiatives". Economic Journal of Development Issues, Volume 11-12 no.(1-2) p.124-134

[https://www.researchgate.net/publication/312551490 ONE MONTH AFTER DEMONETIZATION WHAT PEOPLE SAY](https://www.researchgate.net/publication/312551490_ONE_MONTH_AFTER_DEMONETIZATION_WHAT_PEOPLE_SAY)