

Study on the Effect and Impact of Demonetization on the Indian Economy and Mutual Funds

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Abstract – This paper analyses the momentary costs and medium term advantages of demonetization and its impact on the development of different sectors of an economy where noteworthy money exchanges are included. It is apparent from watched data that the effect of demonetization on Gross Value Added development was unassuming. In spite of the fact that the Gross Value Added contracted insignificantly, it is anticipated to be sure in coming years. First and foremost it contrarily affected the portions of assembling and service sector indicating the descending development in different markets, for example, vehicles, buyer, and land and so on. Later with the remonetisation and lower loaning rates the development of an economy has been recuperating quickly through increment in private utilization, discretionary cash flow and moderate credit. With digitization economy is moving towards cashless society and will get more straightforwardness the framework decreasing tax avoidance along these lines checking the utilization of dark cash for criminal operations and dread funding.

Keywords: Demonetization, Economy, Digitization, Remonetisation

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INTRODUCTION

Demonetisation has been a major development driver for the Indian mutual fund industry, prompting a flood in resources and sending stocks higher than ever.

As investors raced to store money in their ledgers, banks were overflowed with funds. With scarcely any roads to loan and liquidity high, banks diminished their rate on fixed deposits. Simultaneously, returns on different resources, for example, land and gold weren't too incredible either, which prompted speculator cash streaming into mutual funds.

History of Demonetization in India

India has a long-standing relationship with demonetization.

- I. **First currency boycott:** In 1946, the currency note of Rs 1,000 and Rs 10,000 were expelled from dissemination. The high group of currency was just assessable to a couple of individuals in the general public, in this manner inferring that demonetization was not a major achievement.
- II. **Second currency boycott:** In 1978; the then Prime Minister of India Morarji Desai

reported the currency boycott taking Rs 1000, Rs 5000 and Rs 10,000 unavailable for general use. Like the demonetization in 2016, the point of this demonetization was additionally checking dark cash.

EFFECTS OF DEMONETIZATION ON MUTUAL FUNDS

By and large, the demonetization impact on mutual funds growth is relied upon to remain for 1-2 years. Past that, it's normal that there will be a progress from the disorderly to the composed sector. Thusly, long haul speculation choices are not encouraged to be one-sided by such occasions. In present moment, some unpredictability can at present happen as the consequences of the situation develop.

Demonetization and the Indian Economy

The movement of the Indian stock market during and after demonetization ought not be broke down in storehouses. The stock market is influenced by the transaction of an assortment of variables (worldwide and household). Key worldwide issues, for example, US Presidential Elections, oil costs and currency changes among others additionally

add to the ascent and fall of the Indian stock market record.

Impact of Demonetization on Real Estate

Since Real Estate is driven by the dark economy and money exchanges, this was the sector that was presumably the most exceedingly awful hit of the considerable number of sectors. The Nifty Realty file gapped down after the day of the demonetization move and adjusted - 25%.

Impact of Demonetization on Banking

The Banking sector endured a prompt shot the day after the declaration yet recouped on Nov tenth. In any case, it has been along these lines rectifying as it is as yet wrestling with attempting to recharge the money in the economy. Nonetheless, this is one sector which is relied upon to profit in the long haul on the grounds that a great deal of the dark cash will be stored in financial balances and the overabundance funds in the financial framework will likewise help address the non-performing resources (NPA) issue that huge numbers of the banks are looking because of terrible credits.

Impact of Demonetization on Infrastructure

The framework sector is driven by gigantic capital speculations by the administration just as credits taken from banks. Demonetization is relied upon to expand the liquidity in the financial framework, which could convince the legislature to involve its vision of building foundation in India through its vision of 'Make in India'. Accordingly, the Infrastructure ought to be a conspicuous recipient of that. The way that the NIFTYINFRA list has not been influenced a lot, as is affirmed by the way that it is up insignificantly since Nov eighth.

Impact of Demonetization on Information Technology

Since this industry is essentially determined by fares to outside nations, this industry is similarly unaffected/less influenced by the occasion of Demonetization. Next, the IT sector is to great extent money less or less-money sector, subsequently lesser impact.

Impact of Demonetization on Agriculture

Agribusiness, which sets up a greater piece of the basic sector, contributes about 15% to the country's GDP and labourers about portion of the country's people. Given the noteworthiness of this sector in our country, demonetization has basically influenced this sector.

Cash is the fundamental technique for exchange, in towns when everything is said in done and agrarian sector explicitly. With the blacklist of Rs 500 and

1000 division of notes, the agribusiness sector went under direct danger with a huge reliance on cash, for regular business works out. Plus, Nov-Dec time of Kharif procures and starts of rabi planting is every now and again implied as the 'clamouring season' according to a perspective of credit demand.

Arrangement, transport, marketing and dispersal of arranged produce to limit centers or mandis, is dominatingly cash subordinate. A huge bit of the associations in this sector are working at a hazardous level, with low cash liquidity being at the point of convergence of the issues.

DEMONETIZATION IMPACT ON MUTUAL FUNDS

How about we perceive how demonetization is probably going to impact the growth of the different classes of Mutual Funds.

Enormous Cap Funds

Portfolio – puts resources into an expanded bin of value stocks of organizations whose market capitalization is at any rate equivalent to or more than the least market promoted stock of BSE 100 Index.

Since the growth rate is relied upon to descend for next 1-2 years, this would reflect in the general execution of Large Cap stocks. In long haul, the demonetization impact on India growth story is exceptionally positive.

Long haul Debt Funds

Portfolio-puts resources into a scope of debt instruments and currency market instruments to keep up the ideal equalization of yield, security, and liquidity.

Banks will get expected to get 8-9 lac crore as surplus deposits. Indeed, even with a decrease in credit rates, this measure of cash won't get scattered in next 1-2 years. Accordingly, every bank would purchase bonds. This would bring about exceptional yields for the drawn out debt funds for a present moment (~1 year). Yet, in the long haul, since the loan fees are required to go down, the debt fund returns will go down as well.

ICICI Prudential Long Term Plan

With the wellbeing of debt funds, this fund has given 13-14% returns in most recent 3 years. In the previous 20 days, the fund has given over 20% annualized returns. Normal development is ~9.3 years while Yield to development is ~7.4%. Structure comprises of ~ 57% is SOV and ~37% AAA.

Momentary Debt Funds

Portfolio - puts resources into debt and currency market instruments with generally low degrees of loan fee chance

Like long haul debt, momentary debt (or fluid funds) is required to give great returns in present moment. Basically on account of the popularity for these instruments, from the two banks and retailers. Banks are purchasing securities to stop abundance inflows, while retailers are purchasing since they discover transient debt as the best alternatives to stop their cash till the demonetization dust settles down and they have better speculation roads. In long haul, in any case, the transient debts are required to give marginally lesser returns than today. Transient debt funds have given 8-10% returns in last 1-2 years. When the financing costs are diminished, the normal profits for these funds would come to 7-9%.

Birla Sun Life Treasury Optimizer Plan

This fund has performed reliably in past 3-5 years giving 10-12 % annualized. Normal development is ~5 years though Yield to development is ~7.6%. Piece comprises of ~ 40% is SOV and ~30% AAA.

IMPACT OF DEMONETIZATION ON INDIAN ECONOMY

Administration of India demonetized the currency as a device to battle against debasement and black money, which are the serious issues of Indian economy. The current demonetization will effect sly affect Indian economy. A portion of the significant effects of demonetization is as follow.

Effect on Parallel Economy

One of the significant objectives of the demonetization is to battle against the black money. With the demonetization the black money inside the economy will be obstructed as the proprietors of the black money as 500 and 1000 rupeenotes can't supplant it and store it in the banks as it isn't having the best possible records. Along these lines the equal economy will be influenced to a greater degree which is the positive impact of demonetization.

Short Run Effect on Money Supply

Money flexibly will be decreased in the market because of withdrawal of currency notes from dissemination. This effect will be the short run impact of demonetization. The issue of money flexibly will be fathomed when the new currency notes broadly coursed in the market.

Effect on Consumption

Decline in money gracefully because of demonetization is likewise affecting creation and utilization. Because of diminishing in money flexibly creation diminishes and it influence the utilization adversely.

Fall in the Prices

Prices for various merchandise will fall with demonetization of currency. The prices of buyer products and the prices of land sector are relied upon to fall.

Increment in Bank Deposits

The demonetization builds the deposits in current record and investment funds bank account. As government reported the demonetization, the money held by the family unit sector for the crisis purposes will be saved with the banks, which will build the deposits in the banks.

Increment in Alternative Modes of Transactions

Because of demonetization the money exchanges are confronting a decrease, which builds the other elective methods of exchanges like utilization of charge cards, check cards online instalments and exchanges and so on.

Gross domestic product will Decrease in the Short Run

Gross domestic product will be harmed because of the demonetization. Gross domestic product of India may fall because of demonetization. The degree of fall might be exceptionally less and it exists just for a brief term of time. This fall may not influence the growth of the economy.

Effect on Anti-Social Activities

Demonetization is a forceful blow on the counter social exercises. Because of the demonetization funding of hostile to social exercises, pirating can be controlled. These enemy of social exercises debilitate the economy. It is hard to the counter social activists to recoup from this. So the counter social exercises can be controlled to a greater degree

Effect on Other Units of the Economy

Demonetization will have short run impact on agribusiness, little dealers, little merchants and so on as agriculturists are managing the short-lived ware, not having other method of installment other than money exchanges and absence of interest will influence the ranchers contrarily.

REVIEW OF LITERATURE

Shanbhogue Girish, Kumar, A. Prashanth, Bhat, Swathi and Shettigar, Chethan (2016) characterized currency ban as a transition to stop fake bank notes were supposedly utilized for fear financing, just as a careful strike to black money and debasement in the nation. Demonetisation prompts money deficiencies in the nation which demonstrates inconvenient to various private venture, agribusiness and transportation. The lack of money prompted disarray and a great many people confronted issues to exchange their banknotes because of long lines outside banks and ATMs the nation over. This demonetisation step was end up being the greatest assault on black money and debasement in the history of Indian Economy and a movement toward digitalisation. It additionally empowers advanced installments. They reasoned that Demonetization is invaluable to put it plainly, medium and long haul.

Muthulakshmi, E. Kamatchi (2017) in her paper entitled "Impacts of Demonetisation on Indian Economy-Issues and Challenges" expresses that when the money is pulled back from the economy, the nation won't be profited in present moment. Then again, if the money clears its way into the economy it would have a positive and significant impact. She likewise expresses that the demonetisation move, on one hand, was a genuine assault on black money, defilement, hawala exchange, fake currency and dread financing. Then again, it negatively affected different sectors like products and land.

Shah, Ayash Yousuf (2017) expressed that Demonetization is one of the significant strides in battling against defilement, black money and fear funding. Be that as it may, this choice was taken without appropriate planning and it unfavourably impacted people in general. Without printing enough new currency notes 86% of the currency notes were pulled back whipping all market exchanges. Just average citizens needed to confront issues trading their notes, not the individuals who were focused on. With an aim to free the nation of black money and uncover charge defaulters and black money holders, the administration has made the move to demonetized Rs 500 and Rs 1000 notes. The unexpected declaration of demonetisation and neglecting to design appropriately has made turmoil among the overall population. Everyday citizens are confronting issues purchasing with no money in their grasp, burning through their time standing in unlimited lines could have handily been evaded with early arrangement.

Veerakumar, K. (2017) sets that the declaration of demonetization of 500 and 1000 currency notes by the administration is a major stun to the resident of India. The most noteworthy currency notes are pulled back from the economy to counter the issue of tax avoidance, fake currency and financing of fear exercises. It is demonstrated that tremendous money

is being kept into the bank accounts which are more than determined cut off points and are dependent upon punishments and expenses. Use of e-wallets, charge and MasterCard has been expanded hugely and this will make better cashless framework.

Abhani Dhara K. (2017) places that this Demonetisation is ending up being more fruitful than the past two. The time is evolving. Individuals are utilizing web based banking as a method of installment. Bank workers are giving their best to make the demonetisation an effective one. Their help matters a great deal. Despite the fact that the demonetisation move has neglected to snatch absolute black money in the economy, this has at any rate made dread in the psyches of individuals holding black money. He presumed that demonetisation was a mandatory advance to handle the issue of black money, fear based oppression and debasement and so forth.

Shukla, Bal Govind and Gupta, Hariom (2018) in their paper entitled "An Exploratory Study Of Business Students Perspectives On Demonetization In India: With Special Reference To Allahabad City". They utilized essential data for their investigation and presumed that the individuals effectively bolster any activity taken by the administration which are fundamentally focused to kill defilement, black money, and some other dangers like psychological warfare and naxalism in the nation.

Kanchan Kathial(2018): reasoned that Digital exchanges indicated an abrupt growth on the following month of demonetization. Low accessibility of money moves the nation towards cashless exchanges. The move of demonetization constrained individuals to utilize electronic Internet banking, versatile banking, credit and platinum cards, portable wallets and other prepaid installment instruments (PPIs) to purchase merchandise and ventures and do other money related exchanges.

Raghunandan G, Ms. Harshita GK , Ms. Jyothi A(2018) concluded that The genuine achievement of demonetization has been that it has helped the administration in controlling black money stream into the economy. Dishonest practices, for example, psychological warfare funding, betting have halted. The expense of benefits like land and gold has collapsed to a huge degree.

Barsharani(2018): Suggested that Mutual funds have just changed the venture situation of global just as Indian monetary markets as mutual funds are those speculation devices wherein countless investors, having a shared objective, can contribute together. Mutual fund is an organization which joins the speculation funds of numerous investors whose venture objectives are comparative, and consequently puts those funds in an assortment of

protections conveying most extreme benefit and least hazard.

OBJECTIVES OF THE STUDY

1. To study the positive and negative impacts of demonetisation.
2. To break down the impact of Demonetization on various sectors of economy.
3. To investigate the future impact of Demonetization on mutual funds.

RESEARCH METHODOLOGY

A survey is acknowledged by various philosophies that have their points of interest and hindrances. The research methodology is a technique to clarify the issue of research along with the importance behind it. So when we talk about research strategies, we are discussing logical methods, yet we additionally consider the significance behind the usage of the approaches. Information on these and different parts of present day research methodology is critical for researchers, yet additionally for the individuals who read research examines.

Research methods

Various characterizations were utilized to separate the research methods. Homogeneous and idiographic, an open starter study, objectivistic versus emotional and quantitative and subjective is one of the most regular Differences saw.

The quantitative methodology in the common sciences intends to examine characteristic wonders, while in the sociologies a social way to deal with social and social marvels (Myers) has been created.

A quantitative methodology is viewed as goal and is mostly identified with a positive position. Then again, a subjective methodology is viewed as emotional and mostly addresses illustrative and basic positions. Nonetheless, it ought to be noticed that all the quantitative and subjective methods can be utilized for research worldview. Positivist can't be basic, as indicated by the explanation of the researcher.

Quantitative and Qualitative Research Methods

Test tests in quantitative research methods are to pronounce as an afterthought that he had no conversation about her.

DATA COLLECTION

Primary:

The logical research has two viewpoints for the data assortment reason which is known as primary data

and optional data. The word primary indicates there the data which gathered from the primary source which implies the data produced and assembled from the direct source called primary data. There are various instruments which can be utilized with the end goal of primary data assortment which incorporates pre-coded questionnaire, field notes, perceptions, centered gathering conversation and meeting. In this data produced very reason and has not been utilized by any other individual than the researcher.

DATA ANALYSIS

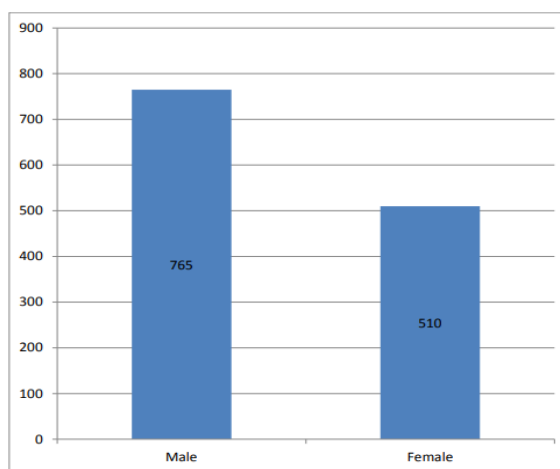
The survey is finished by visiting different clients, for example, understudy, working men and housewives who will utilize Mutual Funds as a method of long haul venture and an item currently offered by a large portion of the well known Financial Institutions. The gathered data have been classified both in modules and in Simple Tabulation, which implies just with the utilization of a variable and the Cross table with two factors.

Responses of the Customers with worry to Questionnaire

Entire data is arranging from the data answers set by the bank client and bank Manager of bank and as per their reaction given to the questionnaire. The point by point questionnaire referenced underneath with worry to their degree of reactions accumulated from the bank client and bank Manager of bank ensuing sign of the data is additionally given.

Table-1 Distribution of the Defendants on the Basis of Gender:

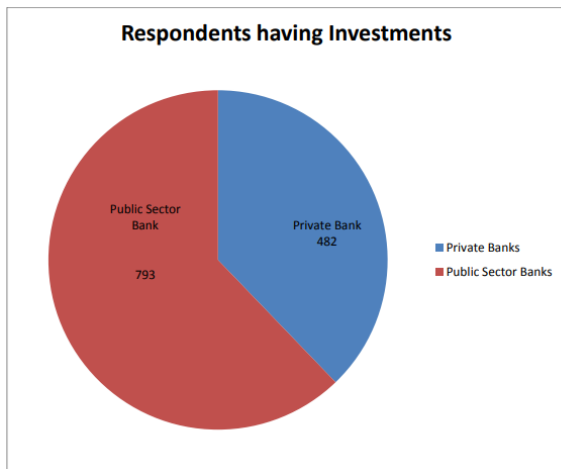
Gender	Male	Female Total
Sample	765	510



Graph-1

Number of Respondents having Mutual Funds from Financial Institutions

Respondents	Private Banks	Public Sector Banks
1275	482	793



Graph-2

CONCLUSION

The study investigates the impact of national and worldwide occasion on Performance of chose mutual funds. The study has utilized Political and Economic occasions from India just as from globe, as GST and Demonetization as national occasion, and BREXIT and Victory of Trump as universal occasion. We found that if there should be an occurrence of ICICI Prudential Focused Blue chip Fund: GST, Demonetization and triumph of Donald Trump have No effect and just Brexit has positive impact on the NAV. Further if there should be an occurrence of ICICI Prudential Income fund: the whole occasion has positive impact on the concerned NAV aside from GST. So for the more secure side it is proposed that to put resources into Equity Mutual Fund, either the occasion will be national or global.

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