

# Impact of Demonetization on Indian Economy

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**Abstract – Demonetization is the process of removing currency from general usage or circulation. In India's case Government completely withdrawn the currency with the denomination of 1000. Along with 1000 currency notes 500 rupee notes were also withdrawn from circulation. For the old 500 currency notes new 500 rupee notes will be issued and a new currency note of 2000 denomination has been introduced in the economy. The present paper highlights the impact of demonetization on Indian economy.**

**Keywords: Demonetization, Cashless Transactions, Credit, Tax Evasion**

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## 1. INTRODUCTION

In famous speech, the informal economy passes by the name of dark cash and the authority of white cash. High contrast are additionally differently substituted by number two and number one, unaccounted and accounted, unreported and revealed, unrecorded and recorded et cetera... "It is stripping a cash unit of its status as legitimate delicate. Demonetization is the old unit of money must be resigned and supplanted with another cash unit". Cash is the life blood of each economy. With the development of progress and humankind, the requirements of people expanded. Keeping in mind the end goal to satisfy people boundless needs bargain framework developed. Be that as it may, over some undefined time frame, the creation of cash turned into a solid column to fabricate an economy. Cash trade seems, by all accounts, to be more helpful than bargain since it hinders the "twofold occurrence of needs" and is fit for managing moderately complex economy. Cash trade encourages simplicity of working together, encourages tax assessment and national coordination. All exercises, for example, generation, trade, dissemination, administrations and so on shape an economy. It is called formal economy. A casual economy is neither financial action/exercises nor monitories by government appeared differently in relation to a formal economy. Nearness of defilement, dark cash, fake money, poor administration and so forth advances and builds up parallel economy.

### Demonetization in India:

This is as anyone might expect Government Demonetizing the cash, before this India has seen demonetization twice. Strangely demonetization

happened in pre independence period. In January 1946, curiously demonetization happened in India. In the midst of this demonetization cash notes of 1000 and 10000 rupees were pulled once more from the spread and new money notes of 1000, 5000 and 10000 class rupees were introduced in the year 1954. On sixteenth January 1978, Government of India Demonetized the money notes of 1000, 500 and 10000 rupee notes as an approach to fake money and dull money. The present demonetization is the third occasion in Indian Economy and it is the second Demonetization in the post-independence period.

### Reasons of Demonetization

- To advance a Cashless economy
- To destroy fake money
- Eliminate dark cash
- To battle debasement
- To battle expansion
- Crackdown on fear mongering and Naxalism
- To advance a cashless economy.

**Meaning:** The word reference significance of demonetize is "To deny (a metal) of its ability as a money related standard" or "To pull back from use as cash" So, demonetization is the demonstration of stripping a money unit of its status as legitimate delicate. It is the demonstration or procedure of evacuating the lawful status of money unit. A cash on which Governor of RBI for the benefit of Central

Government ensures by making proclamation "I guarantees to pay the conveyor, the whole of cash ... " which engages it a legitimate status. From the date of demonetization, all old monetary standards which are demonetized will stop to be a lawful delicate. Such cash can't be utilized as cash to do any exchange from now on, however to supplant with money.

## 2. REVIEW OF LIERATURE:

**Anand Manoj and Singh Jagandeep (2008)** concentrated the impact of merger revelations of five banks in the Indian Banking Sector on the offer holder bank. These mergers were the Times Bank joined with the HDFC Bank, the Bank of Madurai with the ICICI Bank, the ICICI Ltd with the ICICI Bank, the Global Trust Bank focalized with the Oriental Bank of business and the Bank of Punjab met with the centurion Bank. The revelation of merger of Bank had positive and basic impact on shareholder's wealth. The effect on both the picking up and the goal banks, the result exhibited that the simultaneousness with the European and the US Banks Merger and Acquisitions beside the truths the estimation of offer holder of bidder Banks have been destroyed in the US setting, the market estimation of weighted Capital Adequacy Ratio of the joined Bank portfolio in this manner of merger assertion is 4.29% in a three day time span (- 1, 1) window and 9.71 % in an Eleven days term (- 5, 5) event window. The event examine is used for exhibiting the constructive outcome of merger on the bidder Banks.

To look the effects of cross periphery Merger and Acquisitions (M&As) **Hijzen Alexander et al., (2008)** concentrated the impact of cross edge Merger and Acquisitions (M&As) and analyzed the piece of trade cost, and elucidated the extended in the amount of cross periphery Merger and Acquisitions (M&As) and used industry data of 23 countries over a period of 1990 - 2001. The result suggested that aggregate trade cost impacts cross edge merger development conflictly, its impact differentiate essentially transversely over even and non-level mergers. They in like manner showed that the less negative effects on level merger, which is consistent with the expense bouncing understanding, put forth in composing on the determinant of even FDI.

**Mantravadi Pramod and Reddy A Vidyadhar (2007)** surveyed that the impact of merger on the working execution of securing firms in different organizations by using pre and post cash related extent to take a gander at the effect of merger on firms. They picked all mergers required out in the open limited and traded associations in India in the region of 1991 and 2003, result recommended that there were little assortment to the extent impact as working execution after mergers. In different ventures in India particularly dealing with a record and back industry had a fairly beneficial outcome of advantage on pharmaceutical, materials and electrical sorts of apparatus part and exhibited the irrelevant negative impact on operator

execution. A part of the organizations had a significant reduction both to the extent banquet and rate of gainfulness and assets after merger.

**Lehto Eero and Bockerman Petri (2008)** surveyed the work effects of Merger and Acquisitions on center by using match establishment level data from Finland over the season of 1989-2003. They focused cross periphery Merger and Acquisitions and furthermore neighborhood Merger and Acquisitions and analyzed the effect of work of a couple of particular sorts of Merger and Acquisitions. They evaluated that the cross periphery Merger and Acquisitions provoke downsizing the collecting work and the effects of cross edge Merger and Acquisitions on work in non-gathering are extensively weaker and change under lock and key related with family unit Merger and Acquisitions and inside reconstructing in like manner normally causes business setbacks.

Plunging on the distinctive goals in Merger and Acquisitions, **Mehta Jay and Kakani Ram Kumar (2006)** communicated that there were various purposes behind Merger and Acquisitions in the Indian Banking Sector and still contains to get the excitement of an examination and it just in light of after the strict control bearings had provoked a deluge of merger and Acquisitions in the Banking business and states numerous clarification behind merger in the Indian Banking range. While a separated Indian keeping cash structure may be uncommonly well beneficial to the customer by virtue of contention in banks, however meanwhile not to the level of overall Banking Industry, and construed that merger and Acquisition is an essential for the state to make couple of tremendous Banks.

**R. Srivassan et al., (2009)** gave the points of view on budgetary implications and issue occurring in Merger and Acquisitions (M&As) highlighted the cases for mix and discussed the helpful vitality based merger which underscored that merger is for making colossal size of the firm however no confirmation to grow profitability on a kept up business and there is reliably the peril of upgrading execution after merger.

**Sinha Pankaj and Gupta Sushant (2011)** concentrated a pre and post examination of firms and contemplated that it had advantageous result as their efficiency, in most of the cases disintegrated liquidity. After the season of couple of years of Merger and Acquisitions(M&As) it got to the significant part that associations may have had the ability to utilize the helpful energies rising out of the merger and Acquisition that have not had the ability to manage their liquidity. Consider exhibited the connection of pre and post examination of the associations. It in like manner demonstrated the valuable results on the preface of some cash related parameter like Earnings before Interest and Tax (EBIT), Return on shareholder stores, Profit edge, Interest Coverage, Current Ratio and Cost Efficiency et cetera.

**Müslümov Alövsat (2002)** dissected that coordinated effort is one of the guideline figure behind the merger and took 56 mergers from US industry, and the exchange streams change out the gainful usage of favorable circumstances and extending the arrangements and exhibited the surviving firm change in working cash streams. The post-merger make additional regard and shows the change of bidder firm with cost to book extent, used non-parametric test as most sensible procedure for testing post-merger execution.

**Aharon David Y et al., (2010)**, separated the offer exchanging framework bubble effect on Merger and Acquisitions and took after by the reduction of pre air stash and following, the impacting of air take seems to have provoked propel discernment by the monetary authorities and give affirm which prescribes that in the midst of the euphoric air take period examiner put it all on the line. Merger of banks through union is the gigantic drive of advance happened in the Indian Banking portion.

**Kuriakose Sony et al., (2009)**, focused on the valuation practices and adequacy of swap extent settled in persistent amalgamation in the Indian Banking Sector and used swap extent for valuation of banks, yet in most of the cases the last swap extent is not upheld to their financials. It is seen that, most of the works have been done on designs, approaches and their structure, human edge which is ought to have been explored, while efficiency and cash related examination of the mergers have not given due importance. The present audit would go to inspect the detail of Merger and Acquisitions (M&As) with more conspicuous focus on the Indian keeping cash part. The audit will in like manner look at the pre and the post-merger execution of banks. An attempt is made to predict the possible destiny of the nonstop Merger and Acquisitions (M&As) on the start of financial execution of Indian sparing cash division.

### **3. IMPACT OF DEMONETISATION ON INDIAN ECONOMY**

Administration of India demonetized the cash as a device to battle against defilement and dark cash, which are the significant issues of Indian economy. The present demonetization will be effect sly affecting Indian economy. A portion of the significant impacts of demonetization is as per the following.

#### ➤ **Effect on Parallel Economy**

One of the significant goals of the demonetization is to battle against the dark cash. With the demonetization the dark cash inside the economy will be hindered as the proprietors of the dark cash as 500 and 1000 rupee notes can't supplant it and store it in the banks as it is not having the correct reports. Along these lines

the parallel economy will be influenced to a more prominent degree which is the positive effect of demonetization.

#### ➤ **Short Run Effect on Money Supply**

Cash supply will be diminished in the market because of withdrawal of money notes from dissemination. This impact will be the short run effect of demonetization. The issue of cash supply will be explained when the new money notes broadly circled in the market.

#### ➤ **Effect on Consumption**

Diminish in cash supply thus of demonetization is additionally affecting creation and utilization. Because of abatement in cash supply creation declines and it influence the utilization adversely.

#### ➤ **Fall in the Prices**

Costs for various products will fall with demonetization of cash. The costs of customer merchandise and the costs of land area are relied upon to fall.

#### ➤ **Increase in Bank Deposits**

The demonetization builds the stores in current record and reserve funds financial balance. As government declared the demonetization, the cash held by the family unit area for the crisis purposes will be stored with the banks, which will build the stores in the banks.

#### ➤ **Increase in Alternative Modes of Transactions**

Because of demonetization the money exchanges are confronting a decrease, which builds the other option methods of exchanges like utilization of MasterCard's, platinum cards online installments and exchanges and so forth.

#### ➤ **GDP Decreased in the Short Run**

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

#### ➤ **Effect on Anti-Social Activities**

Demonetization is a strong blow on the counter social exercises. Because of the demonetization financing of hostile to social exercises, carrying can be checked. These hostile to social exercises debilitate the economy. It is hard to the counter social activists

to recoup from this. So the counter social exercises can be checked to a more noteworthy degree.

### ➤ Effect on Other Units of the Economy

Demonetization will have short run effect on horticulture, little dealers, little sellers and so forth as agriculturists are managing the perishable product, not having other method of installment other than money exchanges and absence of interest will influence the ranchers adversely. A similar sort of circumstances confronted by the little merchants and little sellers.

### The Probable Consequences of the Demonetisation

The accompanying likely effects on the economy will be watched if a significant bit of the money is either revealed or is devoured in the economy.

**Charge:** Having shut the intentional revelation window for undisclosed cash, it has been accounted for that administration will keep a nearby watch on stores over Rs 2 lakh in real money. This would mean expanded expense net, higher assessment gathering and a superior duty to GDP proportion. Philips Capital in a report says that the degree of parallel economy, which was 23.2% of GDP, is presently around 25-30% of GDP. As the cash gets accounted and more expenses are gathered, government may be enticed to lessen assess rates going ahead.

**Loan fees:** One of the greatest effects of demonetization would be high esteem exchanges, particularly land and gold. This would bring about lower expansion, enticing the national bank to diminish financing costs. In any case, the greater effect on financing costs will be the liquidity with which banks will be flushed. CLSA's focuses out that banks would profit with higher CASA (current record investment account) development as a piece of the \$ 190 billion money heap gets stored with them. Higher store development and proceeding with frail credit development would make open doors for loaning rate slices and venture exercises to get.

**Liquidity:** Movement of merchandise and cash will be hit in the short. A Bank of America Merrill Lynch note says that discount channel shapes more than 40% of the deals for the Indian buyer firms. This channel works primarily on money exchanges and will probably witness liquidity limitations in the close term. This could disturb the store network and effect development in the December quarter. The report additionally includes that shopper firms ordinarily give tight credit terms (<7 days) to the merchants, who thus give credit to the wholesalers/outlets all alone records. Because of general fixing of the trade liquidity out the production network, shopper firms might be compelled to offer simpler credit terms to the wholesalers in the close term. Therefore we expect an expansion in their receivables in the December quarter.

**GST:** Demonetization comes at an essential as the nation heads to another duty administration with the usage of GST. Demonetization would build the assessment net and alongside GST result in diminishment of dark cash era. Alongside GST, demonetization will prompt a higher expense/GDP proportion, says CLSA.

**Monetary Assets:** As cash lying inactive comes in the primary economy it would move to higher yielding and fluid resources. Cash is probably going to move to monetary resources from gold, valuable metals, land and plain money. Values may mirror the frenzy in the economy for the time being, yet the move is will be gainful over the long haul say the greater part of the specialist's report and master remarks.

**Impact on parallel economy:** The evacuation of these 500 and 1000 notes and supplanting of the same with new 500 and 2000 Rupee Notes is relied upon to - expel dark cash from the economy as they will be hindered since the proprietors won't be in a position to store the same in the banks, - Temporarily slow down the dissemination of substantial volume of fake money and - control the subsidizing for against social components like sneaking, fear based oppression, reconnaissance, and so forth.

**Impact on Money Supply:** With the more established 500 and 1000 Rupees notes being rejected, until the new 500 and 2000 Rupees notes get broadly circled in the market, cash supply is required to decrease in the short run. To the degree that dark cash (which is not fake) does not re-enter the framework, save cash and subsequently cash supply will diminish for all time. However continuously as the new notes get circled in the market and the crisscross gets amended, cash supply will get.

**Impact on Demand:** The general request is required to be influenced to a degree. The request in taking after zones is to be affected especially: November 09, 2016  
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**Impact on Prices:** The Price level is relied upon to be brought due down to control from interest side. This request driven fall in costs could be comprehended as takes after:

- **Consumer merchandise:** Prices are relied upon to fall just possibly because of control sought after as utilization of cards and checks would make up for a few buys.
- **Real Estate and Property:** Prices in this segment are to a great extent anticipated that would fall, particularly for offers of properties where real piece of the exchange is money based, as opposed to in view of banks exchange or check exchanges.



In the medium term, however the costs in this segment could recapture a few levels as engineers rebalance their costs (most likely charging more on check payment) The Indian land advertise which is to a great extent divided and sloppy has had a notoriety of being a place of refuge for dark cash and along these lines we hope to see effect on the area. The effect is probably going to be found in optional markets in this way making land more "illiquid" for a timeframe till the market acclimates to another typical. It won't have any effect on the essential private portion as the purchasers in this division are driven by home loan. The effect will be felt in the auxiliary market and the chaotic designers' group where there were still money managing. Costs boiling down to more sensible levels in the lodging market can't be discounted. In the prompt future, the area will be under genuine weight with volume and number of exchanges in private and land markets seeing a significant descending pattern. This choice alongside land administrative law, GST and Real Estate Investment Trusts would additionally enhance straightforwardness and increment financial specialist trust in the land showcase.

**Impact on Various Economic Entities:** With trade exchange bringing down out the short keep running, until the new notes are spread broadly into dissemination, certain segments of the general public could confront here and now interruptions in assistance of their exchanges. These areas are:

#### **Agriculture and related sector**

- Small traders
- SME
- Services Sector
- Households
- Political Parties
- Professionals like doctor, carpenter, utility service providers, etc .
- Retail outlets
- Economics

I Economic results of demonetization of 500 and 1000 Rupee Notes 3 The nature, recurrence and measures of the business exchanges required with these areas of the economy require money exchanges on more incessant premise. Along these lines, these portions are required to have the most huge effect post this demonetization procedure and the presentation of new notes available for use.

**Impact on GDP:** The GDP development could be affected by this measure, with diminishment in the utilization request. However with the current ascent in celebration request is required to balance this fall in general effect. Additionally, this normal effect on GDP may not be critical as some of this request might be conceded and re-enter the stream once the money circumstance ends up noticeably typical.

**Impact on Banks:** As coordinated by the Government, the 500 and 1000 Rupee notes which now stop to be lawful delicate are to be saved or traded in banks (subject as far as possible). This will naturally prompt more sums being saved in Savings and Current Account of business banks. This thusly will improve the liquidity position of the banks, which can be used further to lend purposes. Be that as it may, to the degree that families have clutched these assets for crisis purposes, there would be withdrawals at the second stage.

**Impact on Online Transactions and option methods of installment:** With money exchanges confronting a lessening, elective types of installment will see a surge sought after. Advanced exchange frameworks, E wallets and applications, online exchanges utilizing E managing an account, use of Plastic cash (Debit and Credit Cards), and so forth will see significant increment sought after. This ought to in the long run prompt reinforcing of such frameworks and the foundation required. CARE's View disregarding the underlying hiccups and disturbances in the framework, in the long run this change will be very much absorbed and will demonstrate positive for the economy over the long haul.

- Black cash hoarders will miss out, in the long run boosting the formal economy over the long haul.
- Short term fall in land costs may profit working class subjects.
- This move by the Government alongside the execution of the GST will in the long run make the framework more responsible and productive.

#### **CONCLUSION:**

Central government's current choice to demonetize the high esteem cash is one of the real strides towards the annihilation of dark cash in India. The demonetization drive influenced some degree to the overall population, however for bigger enthusiasm of the nation such choices is unavoidable. Additionally it may not control dark cash completely, but rather certainly it has significant effect in checking dark cash to huge degree.

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