

Demonetization: Impact on the Economy

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Abstract – India has amongst the highest level of currencies in circulation at 12.1% of GDP. Cash on hand is an estimated at around 3.2% of household assets, higher than investment in equities, or roughly around \$ 220 billion. Of this cash, 86% is in the form of Rs 500 and Rs 1,000 notes or roughly Rs 14 lakh crore (\$190 billion). The argument posited in favor of demonetization is that the cash that would be extinguished would have impact on black money, fake Currency, corruption and India's transitions towards cashless economy. While the facts are not available to anybody, it would be foolhardy to argue that this is the only possibility. therefore evaluate the demonetizing we will discuss 3w's. what, why, way forward. This paper elucidates that demonetization is planned script under the process of PMJDY and IDS (income disclosure system)

Keywords: demonetization, Black Money, Fake Currency, Corruption, GDP, Cashless Economy.

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INTRODUCTION

The government has implemented a major change in the economic environment by demonetizing. The high value currency notes of Rs 500 and Rs 1000 denomination. These ceased to be legal tender from the midnight of 8 November 2016. People have been given up to December 30, 2016 to Exchange the notes held by them. The proposal by the government involves the elimination of these Existing notes from circulation and a gradual replacement with a new set of notes. It would be held 3edtime in history of India.

1. Demonetization on Jan 1946- Rs1000, 5000 and 10000notes.
2. 1954- These notes are comes circulation.
3. 16th Jan 1978 janata party again demonetizes the 5000 and 10000 Rs notes.
4. Demonetization on 8 nov. 2016 Rs. 500, 1000 Rs. notes.

There are potentially two ways in which the pre demonetization money supply will stand altered in the new regime:

One, there would be agents in the economy who are holding cash which they cannot explain and hence they cannot deposit in the banking system. This part of the currency will be extinguished since it would not be replaced in any manner.

Second, the government might choose to replace only a part of the currency which was in circulation as

cash. In the other words, the rest would be available only as electronic money. This could be a mechanism used to force a transition to Cashless medium of exchange. The empirical extent of these two components will be unraveled only over the next six months. These two would have different effects on the economy in the short term and in the medium term, as will be explored below.

On 8 Nov, 2016 PM Modi has address the nation and withdraw the 500, 1000rs detonation from the Circulation. He said three things that it would impact on corruption, fake currency and black money. Our finance minister said that it would also help on cashless society.

OBJECTIVES OF PAPER

1. 3W's.

WHAT IS DEMONETIZATION?

WHY WE NEED IT?

WAY FORWARD...

2. To analyze the current and immediate impact of demonetization on black money, corruption, fake currency, cashless economy and GDP.

RESEARCH METHODOLOGY

The paper is based on secondary data. The data has been collected from Internet. Graph and percentile method has been used to analyze the data.

PROCEDURE FOR EXCHANGE OLD NOTES

The Reserve Bank of India laid down a detailed procedure for the exchange of the demonetized banknotes with new Rs.500 and Rs.2000 banknotes of the Mahatma Gandhi New Series and Rs.100 banknotes of the preceding Mahatma Gandhi Series. Following are the key points

- Citizens will have until 30 December 2016 to tender their old banknotes at any office of the RBI or any bank branch and credit the value into their respective bank accounts.
- Cash withdrawals from bank accounts will be restricted to Rs.10,000 per day and Rs.20,000 per week from 9 November 2016 till 24 November 2016.
- For immediate cash needs, the old banknotes of value up to Rs.4000 per person can be exchanged for the new Rs.500 and Rs.2000 banknotes as well as Rs.100 banknotes over the counter of bank branches from 10 November 2016 by filling up a requisition form along with a valid ID proof.
- All ATMs will dispense bank notes of only 50 and 100 rupee denominations.
- Banks will provide all cash withdrawal transactions at their ATMs free of cost to their customers till 30 December 2016.

Cash withdrawals from ATMs will be restricted to Rs.2000 per day per card up to 18 November 2016 and the limits will be raised to Rs.4000 per day per card from 19 November 2016. However, exceptions were given to petrol pumps, CNG stations, government hospitals, train and airline booking stations, state government recognized dairies, ration shops, and crematoriums to accept the 500 and 1000 rupee notes until 14 November. International airports were also instructed to facilitate an exchange of notes amounting to a total value of Rs.5,000 (US\$74) for foreign tourists and out bound passengers.

What is demonetization?

An act of stripping a currency unit of its status as a legal tender.

Why we need it?

While the increase in circulation of notes of all denominations has grown by 40% between 2011-16 those of Rs. 500 has increased by 76% and those of

rate 1000 has increased by 109%. The economy had expanded only by 30% in the period. This shows the disproportionate increase of high demonization.

According to RBI March 2016 currency in circulation amounted to Rs 16,415 billion. Of these 500 denotes accounted for 47.8% in value and Rs 1000 notes another 38.6%. Together they were more than 86% of the value of the notes in circulation.

FINANCIAL ACTION TASK FORCE:

That looks at the use of international financial system notes that high value notes are used in money laundering schemes, racketeering, drug and people trafficking.

WAY FORWARD.....

PLANNED SCRIPT

First of all, **PMJDY** → **IDS**
DEMONETIZATION

PMJDY:

PM laughed JDY under this exercise highest accounts are opened. We haven't need specific amount under this exercise. This exercise got genesis book record. In Gujarat maximum accounts opened.

IDS:

Income disclosure system. PM said, "if u have BLACK MONEY or uncounted money that u have to pay tax 40 % on them remaining u can keep yourself. 65,000 Cr. Rupee got under this exercise.

DEMONETIZATION:

The government has implemented a major change in the economic environment by demonetizing the high value currency notes of Rs 500 and Rs 1000 denomination.

These ceased to be legal tender from the midnight of 8th of November 2016.

FAKE CURRENCY:

DENOMINATION of 500 & 1000Rs will kill the fake currency which has been generated till now means fake currency that is circulation in economy. E.g.; if a man have fake currency of 500 and 1000, he can't go to bank exchange it. Ultimately black money is extinguished. New 500rs & 2000rs is circulated later on 1000 rs note would be in circulation. But system is not changed. After 1 or 2 year new fake currency would be come in circulation, then what we will do?

1000 → 3 F.V = 0.3

10 → 96 PAISE F.V = 9.6

So we need to highest denomination note of 250...need to make difficult or expensive to print the fake currency with new security feature. The objective of the PM, it will kill fake currency that is generated till now that will be extinguished. System is still same. We can't stop to make fake currency only we can make it difficult to print it.

NIA (National investigation agency):400 Cr. value fake currencies in circulation.

CORRUPTION:

Demonetization on 500rs &1000rs note can't stop corruption. Who think it they are fool. Within the few days of demonetization. New techniques are developed by the corrupt officer.eg 2.9 lakh new currency of 2000Rs note confiscated from a person. Bribe is demanded in 100 Rs note currency. Before the demonetization, bribe is demanded in the 500rs or 1000rs note, reason behind easier to carry money.

BLACK MONEY:

1. The drives & dynamics of illicit financial flows from India: 1948-2008 (dev kar)2. The report estimates that India lost a total of \$213 billion due to illicit flows in this period. The total volume of illicit assets held in abroad represents about 72% of size of black money underground economy which has been estimated at 50%of India's GDP.

WORD BANK REPORT:

Black money YEAR 2000=23.1% and in 2007 = 20.7%of India's GDP. Only 6% of unaccounted money held in cash.

Effect on GDP:

The GDP formation could be impacted by this measure, with reduction in the consumption demand. However with the recent rise in festival demand is expected to offset this fall in overall impact. Moreover, this expected impact on GDP may not be significant as some of this demand will only be deferred and re-enter the stream once the cash situation becomes normal.

Currency Shock

After demonetization put over 85% of cash out of circulation, re-injection of liquidity into the system has been slow, hurting both formal and informal sectors

TABLE 1:

The ratio of key monetary variables relative to GDP at current prices

(in %)

	Currency/GDP)	M3/GDP	Money multiplier
2011-12	11.09	79.77	5.05
2012-13	10.91	79.48	5.4
2013-14	10.6	79.68	5.64
2014-15	10.56	80.49	5.73
2015-16	10.86	81.98	5.66

GDP: Gross Domestic Product

TABLE 2:

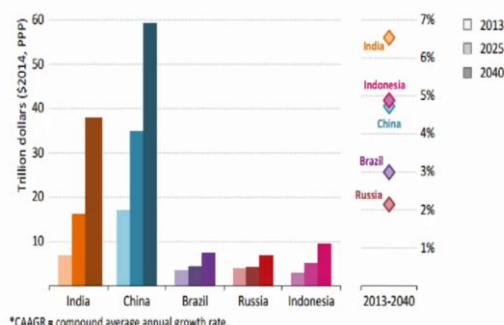
Rate of growth of GVA, savings and capital formation in terms of institutions (average of the growth rates for 2011-15)

(in %)

	Gross value added	Gross savings	Gross capital formation
Formal or organized sectors			
Public non-financial corps	4.99	-1.32	3.06
Private non-financial corps	10.71	18.26	11.36
Public financial corps	6.26	-0.52	13.84
Private financial corps	9.56	13.26	0.91
Core government	9.55	-4.48	14.25
Informal sector			
Household sector	8.62	3.61	-0.18
Overall economy	9.07	7.99	6.13
Share of informal sector	45.41	63.96	39.43

Source: Reserve Bank of India and ministry of statistics and programme implementation

Size of GDP and GDP growth by selected economies 2013 - 2040



*CAAGR = compound average annual growth rate.

* sources forbes.com

CASHLESS TRANSACTIONS:

Good beginning has been made. People are today using pay tm, debit card, credit card. They are less reliable on cash. With cash transactions facing a reduction, alternative forms of payment will see a surge in Demand. Digital transaction systems, E wallets and apps, online transactions using E banking, usage of Plastic money (Debit and Credit Cards), etc. will definitely see substantial increase in demand. This should eventually lead to Strengthening of such systems and the infrastructure required. CARE's View In spite of the initial hiccups and disruptions in the system, eventually this change will be well assimilated and will prove positive for the economy in the long run.

- Black money hoarders will definitely lose out, eventually boosting the formal economy in the long run.
- Short term fall in real estate prices might benefit middle class citizens.
- This move by the Government along with the implementation of the GST will eventually make the system more accountable and efficient.

Country	Economy	cash %
US	\$ 21 T	8.6 T
China	\$ 14 T	12.7 T
Japan	\$ 4.5 T	11 T
India	\$ 2.25 T	22 T

According to this table we can see the different-different nation's economy and their cash %.Sweden is going to become a first cashless country. He has only 3% in cash of whole economy. No country can become cashless over a night with a single step but the beginning has been made. So we can say demonetization have a great impact on cashless transactions.

Positive impact:

Online retail

Net and payment bank

Mobile wallets

E-marketplace

Payment gateway

Cards

NEGATIVE IMPACT:

Luxury goods

Real estate

Commodities

Agriculture

GST:

Demonetization comes at an important as the country heads to a new tax regime with the implementation of GST. Demonetization would increase the tax net and along with GST result in reduction of black money generation. Along with GST, demonetization will lead to a higher tax/GDP ratio, says CLSA.

COMPARATIVE ANALYSIS OF IMPACT ON INDIAN STOCK MARKET AND ASIAN STOCK MARKET IN PRESENT SCENARIO

At the time of writing, the Indian markets have fallen a bit more than other emerging markets in Asia. The S&P BSE Sensex is down 3.8%, which is more than more or less all other Asian emerging markets. The possibility of a Donald Trump win is keeping markets on the edge worldwide. The extra fall in the Indian markets compared to others could be due to many factors, including high valuations, but it's very likely that the demonetization effect is mainly responsible for the fall.

That is clearly seen if we dig a little deeper. The Sensex is made up of very large companies which may not be impacted as much by the demonetization process. BSE's mid-cap and small-cap indices have fallen by over 6% each at the time of writing. And in truth, the largest impact of the government's move will be in the unorganized sector.

Why 2000 denomination note?

1. Bharatiya reserve bank note mundane pvt. Ltd which used to print 1000 denomination note & now printing 2000 denomination notes.
2. Capacity- 133 cr. Notes a month on 2 shift basis 3 shifts basis- 200 cr. Note per month

Time required estimated: 2 months.

So it's easy to print 2000 Rs. Note with the comparison of 1000 Rs. Note within less time.

500 denomination note

1. Security Printing & Minting Corporation of India Ltd.
2. Capacity: 100 Cr. Notes Per month.
3. Estimated Time Required- May 2017

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CONCLUSION

Demonization of Rs. 500 and RS 1000 has great impact on economy that results India's GDP has decrease by 75. It also effect on the fake currency but that is circulated till now. System is not changed. Within one year again fake currency would be come in circulation. We can't stop fake currency only make difficult to print it. Another objective of Demonization that it would stop corruption. It can't stop corruption, the exchange of bribe again started with the value of RS 2000 notes because it is more to carry with the comparison of Rs 1000 notes. It also effect on Black money but anybody have 6% of black money in cash. Other 94% easily converted to the real estate, gold and foreign account. But it has great impact on cashless transactions. People are using pay tm, Debit card, credit card and ATM card. They are less reliable on cash. No country can transform himself cashless with one single step over a night. But the beginning has been made. In future cashless transactions would be incased.

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