

A Study on the Demonetization and Its Impact on Indian Economy

Esha Handa*

Assistant Professor in Commerce, Arya Adarsh Girls College Madlauda, Panipat, Haryana

Abstract – Demonetisation did a year ago on eighth November 2016 maybe was the absolute most choice after autonomy that influenced everyone of India is it a politician, businessman, bureaucrat, laborer, housewife, child, and so forth. Demonetisation done by our fair Prime Minister Narendra Modi a year ago was with a generally excellent expectation to decrease corruption and black money from the economy, acquire straightforwardness and more noteworthy formalization the economy. This single most choice shook the economy for some time, and everyone bantered on its effect on Indian economy, business and various sectors of the economy. Presently the economy has left that unexpected twitch of cash crunch and attempting to be balanced out, so it is a really decent time to examine the impacts of this demonetization on our economy. Despite the fact that it will take at any rate 5-6 years to get the total aftereffects of this demonetization some short-term impacts are very unmistakable. This paper is an endeavor to discover these short-term effects of demonetization on Indian Economy both positive and negative. This paper presents illustrative, expository methodology dependent on auxiliary information to discover these positive and negative impacts of this demonetization on Indian economy in most recent one year

Keywords: Demonetization, Economy, Money

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1. INTRODUCTION

The formal declaration of demonetization of high currency denomination notes of Rs. 500 and Rs. 1000 worth almost 15.4 trillion, comprising around 87 percent of the currency available for use, occurred on November 8, 2016. The move went for checking corruption, black money, killing fake currency and psychological oppression subsidizing. Alongside, the move went for the advancement of a cashless economy basically through digitization, changing over the casual economy to a formal one, expanding the degree for financial consideration, improvement of financial savings, bigger extension for reinforcing of treasury accounts of the Government eventually to be used for advancement fund, and so forth.

That there are occasions when countries, for instance, Canada and Singapore, stopped printing some high value notes and requested that banks return such notes to the central bank without calling them illegal tender. Anyway Indian experience has tendered the high denomination notes illegal and provided crisp notes of Rs. 500 and presented new currency notes of Rs. 2000 the greatest target of demonetisation is connected to uncovering black money and corruption. Starting at now the adventure of the government towards controlling black money and corruption, for example, the Income Declaration Scheme (IDS) in the Budget for 2016-17, the August

2016 correction of the Benami Transactions (Prohibition) Act of 1988, and the changes in circuitous taxes as GST are confined measures however all things considered make the enormous extension for tending to the two issues [1].

In the recent months various perspectives in regards to the viability or accomplishment of demonetization has been passed on through reports, magazines and newspaper articles. The vast majority of talk moved around the ongoing declaration of RBI under its yearly report finishing June 2017 that 99 percent of the announced illegal tenders came back to the Central Bank, simply 1 percent adding up to Rs 16,050 crore did not return. This insight puts the question mark on the black money focus of demonetisation and basic scholars call the move as a disappointment.

The previous RBI Governor Raghuram Rajan referenced that the transient financial expenses of demonetisation would exceed the long-term advantages of the move. The other view likewise brings up the expectation of evil presence as it has prompted additional weight on RBI of Rs 7,965 crore on printing new notes post devil along with the additional liability on RBI to pay the interest on switch repo stores of banks lying with the Central bank. Additionally, the fall in monetary growth in the primary quarter of FY 2017-18 to 5.7 percent,

against 7.9 percent the prior year is credited to the log jam in the economy in the midst of evil presence move. Anyway the lower growth because of evil presence move can't be gotten out totally as another real change, GST was reported. The trepidation of takeoff of GST in its current structure has rendered the organizations suspicious about the past stock of goods.

The assessment of demonetization from just the black money point of view is partial as the move has multi-overlay targets, for example, offering lift to the tax base, financial incorporation, cashless economy, and so forth.

In such manner, calling evil presence move as disappointment dependent on recuperation of all expressed measure of high denomination notes should be comprehended with different targets. The other likely advantages, for example, ascend in number of tax payers, tax accumulation sum, less cash economy, restoration in investment under surplus liquidity, satisfying the capital prerequisites of banks under Basel III, balance to rises in resource prices are similarly significant. In the wake of looking at the measurements identified with income, it was reasoned that the quantity of people documenting income tax returns just as income tax has expanded considerably. Also, about 1.8 million bank accounts are under test and the irregular cash stores of Rs 1.6-1.7 lakh crore amid evil presence period is under focal point of the Government. The evil spirit move may have included the additional burden RBI, yet the expense of setback of capital in Indian banking industry under the global accord of Basel III is of most extreme significance which can be overseen through surplus balance with the central bank. Indeed, even the benefit side of RBI has ascended on the ground of increment in foreign investments and domestic investments by 2.70 percent and 7.45 percent, individually. Thus the potential effect on investment restoration in coming a long time through expanded credit is yet to be affirmed [2]. Additionally, the surmountable printed cash to GDP ratio has been a noteworthy test for Indian economy to defend itself from the benefit rises as like what has occurred in USA amid 2004-08 in the midst of foolhardy loaning. In this some of academicians have contended that demonetization gone about as a shield for the India economy against the inordinate progression of cash into the economy which rendered the climb in resource prices well over the genuine behavior. This side has been totally disregarded in the present discussion about viability of the move in such manner evil presence is a move towards cash less economy and for the most part a push to computerized transactions. Alongside, the ascent in bank stores is self-evident. Individuals' stores in the banks went up from Rs 97 lakh crore to Rs 114.2 lakh crore

2. REVIEW OF LITERATURE

S Gurumurthy, (2017) [3] At the beginning various economists have dissected the effect of demonetization from different measurements viz. sway on financial growth, land, little and medium enterprises, agriculture sector, casual economy, wages, work and computerized transactions. One gathering of specialists upheld the present move, while other famous economists like Paul Krugman, Manmohan Singh, Amartya Sen, Kaushik Basu, Larry Summers and Raghuram Rajan have advised the unfriendly effect on economy.

RBI has contended that the transient effect was seen in the start of the demo move yet economy could support the prior dimension by mid-February of 2017, mirroring the quick pace of remonetisation. The transient negative impacts of demonetization would in the long run scatter; notwithstanding, the financial change process is vital to continue the long-run growth.

Salvius, S ,(2017)[4] The hypothetical connection between money supply and monetary yield goes back to amount hypothesis of money where fall in money supply could be evened out to diminish in yield in the midst of fixed velocity. It was accounted for that the offer of 'currency with people in general' in the absolute money supply 'M1' was decreased to 39.1% by December 09, 2016. So also, on 9 December 2016, 'request stores with the banks' saw a year-on-year increment of 29.4% in 2016, when contrasted with 13% in 2015. Bank credit to the commercial sector has seen a decrease post demonetization. The measure of currency available for use edged higher in January despite the fact that it remains 45 percent underneath its October level. Amid demonetization, the effect on Gross value included was felt generally in land and development, yet by one way or another balanced by parallel ascent in agriculture, manufacturing, electricity, and mining.

RBI, (2017)[5] According to the CMIE gauges the new investment proposition dropped to 1.41 trillion in Q3 of 2016-17 as against a normal of 2.36 trillion in the previous nine quarters. Nourishment swelling has facilitated from 3.7 percent (year-on-year, y-o-y) in October 2016 to 1.3 percent in January 2017 for the most part because of dive in vegetables and heartbeats prices. Manufacturing and administrations portions were hit hard in the midst of the move as the automobile sales shrunk by 4.7 percent in January 2017 however came back to extension mode (by 0.9 percent) in February. Concrete creation has declined constantly from November 2016 till January 2017. Sales of commercial vehicles likewise encountered a similar marvel yet resuscitated in February by 7.3 percent. Traveler vehicles saw the fall of around 2 percent in starting time of demo however bounced back strongly to 14.4 percent in January 2017 and

extended by 9 percent in February. In an ongoing report, it was included that genuine GDP growth in India moderated unobtrusively from 7.3 percent in Q3-2016 to 7.0 percent in Q4, which was not as sharp fall the same number of experts had expected.

Madan Sabnavis, Rucha Ranadive, (2017) [6] On banking sector front, the fall in interest rate has been seen because of expanded supports supply post demonetisation. Insurance sector has picked up as the premiums gathered by disaster protection organizations dramatically increased in November and LIC has generally delighted in the upsurge.¹⁴ The effect towards financial incorporation was obvious as 23.3 million new accounts were opened under the Pradhan Mantri Jan Dhan Yojana (PMJDY) and the all-out balance came to Rs 746 billion as on December 7, 2016 detailing a growth of around 65 percent. The effect of demonetisation on the different portions of the financial market has changed. In any case, demonetisation sway on stock market, exchange rate, Government Securities market can't be gotten out as the parallel new administration in USA had reserved the motivation of more protectionist exchange approaches the US, fixing of US monetary policy, and perhaps looser US fiscal policy. There has been a huge improvement in the utilization of advanced methods of installments though littler base. Similar sorts of effect on genuine sectors, banking sector in terms of credit extension and interest rates, government securities' market and accessibility of cash into the framework was highlighted via CARE ratings.

CARE Ratings had evaluated that evil presence would have antagonistic effect on growth due to conceded manufacturing request and irreversible administration sector. Maybe a couple economists¹⁸ referenced that demonetisation will prompt a huge decrease in the growth rate of GDP.¹⁹ IMF had additionally brought down the growth projection of India by 0.6 percentage focuses for 2016-17.

3. RATIONALE FOR DEMONETIZATION IN INDIA

The ongoing demonetization move is multi focused regarding diminishing black money (unaccounted income) in the system, controlling funding of "illegal" activities and addressing the issue of fake currency notes. The move additionally plans to make the shift from a greater amount of an informal economy to a formal one. The dispatch of different schemes of the Government, for example, Jan Dhan Yojna, digital India mission, merchandise and ventures tax dispatch are proof to a similar contention. It is captured that the demonetization may result into positive advancements as far as financial inclusion, higher deposit growth, lower loaning rates, and higher growth in the midst of the interest recovery after brief fall, faster innovation appropriation, and

increment in tax base, plausibility of lower tax rates, etc.

Academicians took a gander at the Prime Minister's turn of demonetization from different thought processes viz. fiscal, monetary and political. Political rationale is to have a sound handle on the checking of defeating tax avoidance and corruption ("black money") while expanding oversight of citizen activities. The fiscal and monetary objectives are intended to generate higher revenue and force progressively economic movement into the banking system. The economic method of reasoning behind the demonetization is credited to three factors essentially controlling the hyperinflation, evacuating counterfeit currency, and more extensive tax base [7]. It is additionally expected that demonetisation would help in lessening the financing costs in the banking system in the midst of the flush of gigantic funds and probability of pass on effect of fall in loan cost to the interest in the country. Anyway the basic examination brings up that the present economic state of India don't conform the demonetization move in direction of economic objectivity as inflation rate is low and even the black money in the cash form comprises just 6-8 percent of the economy. The remaining was put resources into business, stocks, real estate, gems, or "benami" assets, which are purchased in another person's name. A portion of the basic scholars have appended the move with the political increase on account of the five state assembly elections which were booked to be held post demonetisation.

The greatest push for the demonetization is ascribed to address the corruption issue in the country. The equivalent is seen through a series of reforms or activities completed by the present government, for example, setting up an uncommon examination group (SIT) on black money. In Budget 2016-17, it revealed another plan under which those with undisclosed income and assets situated in India could tell the truth by covering a government obligation of 45%. As a result, the tax division revealed recuperation of Rs. 65,250 crore from 64,275 assertions. The government likewise propelled the PMJDY. Almost 220 million accounts were opened as of April 20, 2016, with complete deposits adding up to a little over Rs. 36,700 crore. Different effects on cash less economy and fundamentally the web banking or card installments have picked up prevalence whereby transactions can be settled with more noteworthy speed and efficiency. Higher efficiency advances the extension for evaluation of go through effect of monetary policy examples.

4. PROCEDURES FOR DEMONETIZATION MANAGEMENT

As far as readiness, the starter practice began since January 2016 where the Reserve Bank of India and

the government were in normal touch over the demonetisation of Rs 500 and Rs 1,000 notes and printing of another series of notes. The mystery of the move was kept at an abnormal state with no formal record of minutes of the considerable number of associations. The real choice was taken around May 27, 2016.³¹ The structure of new banknotes of Rs 500 and Rs 2,000 denominations was endorsed at the May 19, 2016 gathering of the Central Board of RBI. RBI governor informed the parliamentary committee in January 2017 that of the Rs 15.44 lakh crore that was demonetised, Rs 9.2 lakh crore had been supplanted by method for new currency notes. In fact Government had a test to supplant the Rs 23 billion notes. In request to guarantee that there is no untimely break it was referenced that the ministers who went to the Cabinet meeting on eighth November needed to remain back till PM's location to the nation got over [8]. Indeed, even individuals from the Reserve Bank of India board too left simply after Modi's discourse. The move was strategic as far as timing as the Cabinet meeting finished around 7.30 pm and RBI load up likewise met around a similar time. Add to it, around few weeks back of the evil spirit move, the cabinet secretariat had issued a roundabout, to personal staff all things considered, encouraging ministers not to convey cell phones to the Cabinet gatherings

5. DEMONETISATION AND RURAL AND INFORMAL ECONOMY

According to the IBEF statistics, unemployment rate in India has boiled down to 4.8 percent in February 2017 contrasted with 9.5 percent in August 2016. In such manner the rural schemes, for example, MNREGA appear to have favorably affected business. Demonetization activity may assist the Government with strengthening the treasury and the expanded revenue is probably going to help rural advancement as far as achieving the yearly focused on length of 48,812 kilometers of rural streets by March 31, 2017 under the Pradhan Mantri Gram Sadak Yojana (PMGSY). As on January 27, 2017, around 68 percent of target has been realized.

With developing cashless economy and advancement of increasingly digital economy, NABARD has wanted to facilitate around 200,000 point-of-offer (PoS) machines in 100,000 villages and disseminate RuPay cards to more than 34 million farmers crosswise over India, to empower farmers to embrace cashless transactions.

In setting up of installment bank Bharti Airtel has made an exceptional move to facilitate rural transactions.⁴⁰ In such manner the Pay world one of the digital wallet arrangements in India has empowered a rural village to go online.

On the agriculture front, it was feared that the division would have unfavorable effect as a large portion of transactions are settled with cash. Farmers

would encounter difficulties in access to seeds, fertilizers and pesticides. But the demonetization came during a period that harmonized with the finish of the Kharif season (gathering) and the start of Rabi (sowing). According to the focal government statistics, the sown region of wheat till eighteenth November 2016 was 79.40 lakh hectares when contrasted with 78.83 lakh hectares last year. Hence the majority of the sowing activities had been completed before demonetization became effective. Likewise, farmers depend on credit finance of mandi this for fertilizers and pesticides where installment is made toward the finish of the crop season [9].

6. DEMONETISATION, FORMAL ECONOMY AND DIGITAL ECONOMY

This area endeavors to comprehend whether demonetisation has pushed India towards a progressively formal and digital economy. Has it been effective in countering fake currency and black economy?

The RTGS transactions have seen an expansion of 12 percent in volume and 9 percent in incentive in the Month of December 2016. In the following two periods the RTGS transactions both in volume and esteem fell down, yet significantly bounced in the long stretch of March 2017. In the first quarter of 2017-18, the growth has been extremely slow. Comparative wonder is watched for retail electronics clearing system. The use of cards in volume terms has gone up yet fell in esteem terms in the demonetization time frame (December 2016). Notwithstanding, in ensuing months the esteem term has appeared however again declined in Q1 of 2017-18. Prepaid instruments, for example, m-valets and PPI cards saw an upward pattern in December yet again fell in ensuing periods. Based on these statistics, it very well may be inferred that the shift to digital exchange was impermanent and again returned to the past dimension. The slow move towards digital transactions might be identified with profound established mentality of uncertain transactions or absence of education about the digital banking or inaccessibility of digital infrastructure in remote regions. In addition, the cash culture in India is overwhelming and individuals prefer to utilize cash wherever conceivable.

7. CONCLUSION

The greatness of the choice by PM Modi to go in for demonetization is tremendous. It included analysis from all quarters and real bothers to the public on the loose. There was a significant drop in economic action by around 1 percent in GDP following demonetization and by virtue of currency crush notwithstanding amid remonetisation period there was an effect on a few sectors of the economy though for a brief span. The choice was additionally gigantic since it included total mystery in printing of

generous amounts of currency, dispersion through banks and so forth.

Despite the fact that few sectors of the economy were affected and the economy likewise saw a decrease in growth in fourth quarter of 2016-17, the time of torment and bother is finished. Business and economic movement has been reestablished and the banks are flush with funds to help loan and give a lift to growth. Money going into the banking system and officially executed would give sufficient extension for higher taxation both direct and indirect. The Center and the State Governments would both remain to pick up. The economy would likewise be adjusted by both cash and profoundly digitized transactions. The government's expanded digital push is an enormous positive result of demonetisation however the information says that it's impermanent given that the cash culture has dependably won in India.

8. REFERENCES

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Corresponding Author

Esha Handa*

Assistant Professor in Commerce, Arya Adarsh Girls College Madlauda, Panipat, Haryana