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## A Study On The Impact Of Demonetization On The Common Man And On The Indian Economy

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### ABSTRACT

Demonetization is one of the bold steps of the Government towards the transformation of the Indian Economy. It is probably one of the biggest big-bang reforms undertaken by Government after a long time. Demonetization announced on November 8, 2016, was aimed at addressing corruption, black money, counterfeit currency and terror financing. The decision was guided by the aim of reaping its enormous potential medium-term benefits in the form of reduced corruption, greater digitization of the economy, increased flow of financial savings and greater formalization of the economy. All of these would lead to higher GDP growth and tax revenue that could be used by the Government for inclusive and stronger economic growth within the norms of fiscal prudence, besides contributing to overall improvement in the business environment in India has traditionally been a cash-intensive economy. The major objectives of the study are- 1. To study the concept of Demonetization and its need in the Indian economy. 2. To study the various effects of Demonetization in the various sectors of the economy. 3. To examine the advantages and disadvantages of Demonetization. Once the currency was demonetized, they made it mandatory to link Aadhar Number to bank accounts and to PAN Card. With these details, Income Tax departments will track all the details easily and can stalk the suspects effectively. They can easily figure out one's actual income itself with details of his assets. It's the first step for future digitalization as well. Demonetization can be said as a "Surgical Strike" on Black Money, Terrorism, Fake Currency, Unorganized trading, Real Estate, Share market etc. on the other hand if we talk about the Indian industry on a broader way it can be categories in three parts Manufacturing sector, Service sector and Agriculture sector. After demonetization, only Agriculture sector shows some positive improvement while if we talk about the manufacturing and service sector both were crashed down and these will affect the whole Indian market in 2017 also. The biggest beneficiaries of demonetization were Banks. It made the banks to accept the deposits without any cost of promotion and drastically increased the liquidity position of the banks.

**Keywords:** Demonetization, Black Money, Impact on the Economy, Corruption, Parallel Economy

## I. INTRODUCTION

Demonetization is the process of removing currency from general usage or circulation. In India, the demonetization declared at prime time on November 8, 2016, among the uncommon, bold economic strategy choices in the historical backdrop of independent India. It was decided to demonetize the high value of currency notes of Rs 1000 and Rs 500. For the old Rs 500 currency notes, new Rs 500 notes were issued and new currency notes of Rs 2000 denomination have been introduced in the economy. New currency notes issued to the public through commercial banks and post offices across India by depositing the demonetized currency notes by the people. According to the RBI's (Reserve Bank of India) Annual Report for April 2015 to March 2016, the value of the currency notes at the end of March 2016 was 16.42 trillion Indian rupees. The Rs 500 and Rs 1,000 currency notes formed 86.4 percent of the value. In one stroke, the government has removed 86.4 percent of the currency in circulation by value. In terms of volume, the currency notes of these two denominations formed 24.4 percent of a total 90.27 billion pieces. Such notes, valued at 15.4 trillion, constituted 86.9 percent of the value of the total currency in circulation. This decision was in continuation of a series of measures taken by the Government of India during the last two years aimed at eliminating corruption, black money, counterfeit currency and terror funding. The decision was guided by the aim of reaping its enormous potential medium-term benefits in the form of reduced corruption, greater digitization of the economy, increased flow of financial savings and greater formalization of the economy. All of these would lead to higher GDP growth and tax revenue that could be used by the Government for inclusive and stronger economic growth within the norms of fiscal prudence, besides contributing to overall improvement in the business environment in India has traditionally been a cash-intensive economy. According to an estimate, about 78 percent of all consumer payments in India were affected in cash. It was, therefore, obvious that currency squeeze during the demonetization period would have some adverse impact on economic activity, although such impact was expected to be transient. In order to mitigate the adverse impact on the common man and also on economic activity, a series of measures were undertaken, keeping in view the feedback received from various quarters. In any case, clearly, understand that any policy of government will have both positive and negative impacts on society and arguments can be applied based on which side one represents. So, an unbiased examination is required to identify the impact of demonetization. Let us get straight to the point that while the negative effect of such choices will be felt instantly but the positive effect can be felt after a period of time. Successful and effectiveness of the scheme is depends upon its implementation.

## II. REVIEW OF LITERATURE

**Ashish Kumar Tripathi (2016)** has revealed about the challenges and problem faced by a common person, the challenge for the person who earns only in the family, challenges for farmers, challenges for families who have any marriage function before 30th December 2016. According to the author with the limit is the main problem for the families who have marriage function. A common person notable get the extended amount from the bank.

**Roshan Kumar M. Bhigania (2012)** has explained how black money arises in India and what was its impact on the economy and what were the steps taken by the government to control it. According to him, the black money leads to inflation and it creates a parallel economy. According to data government warnings to the holders of black money will only result in further inflation due to which the purchasing power of rupee came down.

**Sandeep Kaur (2016)** has stated the various factors such as black money and corruption, funding, real estate, election, gold and silver jewelry and digital payment. The data was collected from various sources like reports, magazines, journals, newspapers, etc. According to the research, there is a positive impact on the banking and infrastructure. Demonetization may lead to improved tax compliance. Demonetization gives a hike to use of digital transaction systems, e-wallets and apps. The demand of the gold and silver increases, because people were trying to invest their black money. A reduction in cash transaction had seen in the real estate market and terrorism also gets affected because of demonetization.

**Vedashree Mali (2016)** has focused on the reasons for demonetization decision and its impact on various sectors of the economy with special reference to its impact on Micro Businesses, E-Wallet businesses, online retail stores and others.

**Veerakumar. K (2017)** has tried to find out the impact of demonetization on the general public in Coimbatore district. For this, the researcher did the survey on 100 respondents and came up with that variable like gender, age, annual income, and occupation have a significant association with the impact of demonetization. The result of the survey was that demonetization helps to destroy black money was the first ranking given by respondents followed by control on corruption and terror activities.

### **III. RESEARCH METHODOLOGY**

The paper is based on secondary data. The data has been collected from the internet, articles newspapers etc

### **IV.OBJECTIVES**

1. To study the concept of Demonetization and its need in the Indian economy.
2. To study the various effects of Demonetization in the various sectors of the economy.
3. To examine the advantages and disadvantages of Demonetization.

### **V.ANALYSIS AND DISCUSSIONS**

#### **History of Demonetization in India**

India had an experience of demonetization of its currency twice before. The first was when Rs 1000, Rs 5000 and Rs 10000 notes were taken out of circulation on 12th January 1946, a 1 ½ year before the Independence. The highest denomination note ever printed by RBI in India was Rs. 10000 note introduced for the first time in the year 1938. However, all three of Rs 1000, Rs 5000 and Rs 10000 notes were again reintroduced in 1954. The second phase of demonetization was done on 16th January 1978 when an ordinance was promulgated to phase out notes with a denomination of Rs 1000, Rs 5000 and Rs 10000. On 12th January

1946 demonetization was resorted to but the Direct Tax Enquiry Committee in its interim report observed, "Demonetization was not successful then, because only a very small proportion of total notes in circulation were demonetized in 1946 and its worth was Rs. 1,235.93 crores". On 16th January 1978, demonetization of high denomination notes was introduced. The high demonetization notes as on that day amounted to Rs 146 crore and total notes tendered to RBI amounted to Rs 125 crore as per data available till August 1981.

### **Need for Demonetization**

Demonetization is one of the Government's bold steps towards the transformation of the Indian Economy. It is probably one of the biggest big-bang reforms undertaken by Government after a long time. In spite of many reasons quoted by Government, RBI in its FAQ on "Withdrawal of legal tender character of existing banknotes in the denomination of Rs 500 and Rs 1000" mentions reasons why this scheme is introduced. It reads as follows: "The incidence of fake Indian currency notes in higher denomination has increased. For ordinary persons, the fake notes look similar to genuine notes, even though no security feature has been copied. The fake notes are used for antinational and illegal activities. High denomination notes have been misused by terrorists and for hoarding black money. India remains a cash-based economy hence the circulation of Fake Indian Currency Notes continues to be a menace. In order to contain the rising incidence of fake notes and black money, the scheme to withdraw has been introduced". Prime Minister Shri Narendra Modi quoted the following reasons for demonetization during a television address to the nation on 08.11.2016: In a historic move that will add record strength in the fight against corruption, black money, money laundering, terrorism and financing of terrorists as well as counterfeit notes, the Government of India has decided that the five hundred and one thousand rupee notes will no longer be legal tender from midnight, 8th November 2016. The Government has accepted the recommendations of the RBI to issue two thousand rupee notes and new notes of five hundred rupees will also be placed in circulation."

### **Impact of Demonetization on Common Man**

Most likely the normal man is hit hardest, particularly the individuals who are everyday workers and have no store of money. Indeed, even their small money resources have been immobilized and are confronting issues to meet their every day fundamental needs. The working class who earned/spared their pay in 500/1000 notes were hit since they didn't have the cash to buy from the market. Independent ventures included generally in real money exchanges have endured; the move has dried their income as the clients attempted to discover money. Individuals with restorative crises and weddings have been hit hard because of a money crunch. The towns and rustic territories needed to shoulder the most warmth as the bank offices were distant from the town and some of them don't have a bank office. Be that as it may, in spite of the hardships confronted by the general population the general opinion is sure as individuals have been strong of the administration in its battle against the debasement. It made even a non-income group people visit the bank and have an account. It increased the number of account holders in banks while increasing deposit corpus. Similarly, Demonetization has brought some operational issues to Banks. It disturbed Bank Employees, Operational Costs and Profitability. The

following are negative influences of Demonetization. 1. Cash Reserve Requirement: 100 percent CRR on incremental deposits meant that banks did not earn any interest on Rs. 3 Lakh crore of deposits for nearly a fortnight. 2. Waived off ATM Charges: ATM charges were waived off during banned note exchange and banks incurred a loss of Rs 20 in every transaction. 3. Waived off Merchant Discount Rate: Banks incurred loss of 1percent discount charges from merchants on using of every card transaction. 4. Non Selling of Loans: Banks were focused on exchanging currency notes and they were not able to sell any loan products. During demonetization, some SME businesses had seen their sales drop by 50-80 percent and could default in their installments to banks. This led the banks to consider it as NPA and affected its level in banks. 5. Stress on Employees: Bank Employees were put under pressure and overtime work environment. It depressed them and kept imbalanced lifestyle. Few cases were found where the employees committed suicide due to work pressure.

### **Impact of Demonetization on Indian Economy**

In the current environment, it is the prohibition of the Rs 500 and Rs 1000 denomination currency notes as a legal tender. Prime Minister of India Narendra Modi announced the demonetization in an unscheduled live televised address at 20:00 Indian Standard Time (IST) on 8th November. In the announcement, Modi declared that use of all Rs 500 and Rs 1000 banknotes of the Mahatma Gandhi Series would be invalid past midnight, and announced the issuance of new Rs 500 and Rs 2000 banknotes of the Mahatma Gandhi New Series in exchange for the old banknotes. The main objective of the demonetization of the currency was:- 1. To make India corruption free 2. To control the black money. 3. To manage escalating price rise. 4. To stop fund flow to illicit movement. 5. To regulate and monitor income tax returns.

### **Economy Circumstances and Affects:**

**1. Effect on parallel economy:** The removal of Rs 500 and Rs 1000 notes and replacement of the same with new Rs 500 and Rs 2000 notes is expected to remove black money from the economy as they will be blocked since the owners will not be in a position to deposit the same in the banks, temporarily stall the circulation of large volume of counterfeit currency and curb the funding for anti-social elements like smuggling, terrorism, espionage, etc.

**2. Effect on Money Supply:** When the older Rs 500 and Rs 1000 notes were scrapped, until the new Rs 500 and Rs 1000 notes get widely circulated in the market, the money supply was expected to reduce in the short run. To the extent that black money (which was not counterfeit) does not re-enter the system, reserve money and hence money supply will decrease permanently. However GNH B gradually as the new notes get circulated in the market and the mismatch gets corrected, the money supply will pick up.

**3. Effect on Demand:** The overall demand is expected to be affected to an extent. The demand in the following areas is to be impacted particularly: 1. Consumer goods and Real Estate and Property. 2. Gold and luxury goods. 3. Automobiles (only to a certain limit). All these mentioned sectors are expected to face certain moderation in demand from the consumer side, owing to the significant amount of cash transactions involved in these sectors.

**4. Consumption will be hit:** When liquidity shortage strikes, it is consumption that is going to be adversely affected first.

Consumption ↓ → Production ↓ → Employment ↓ → Growth ↓ → Tax revenue ↓

**5. Effect on Prices:** Price level is expected to be lowered due to moderation from the demand side. This demand-driven fall in prices could be understood as follows: Consumer goods: Prices are expected to fall only marginally due to moderation in demand as the use of cards and cheques would compensate for some purchases.

**6. Real Estate and Property:** Prices in this sector were largely expected to fall, especially for sales of properties where the major part of the transaction was cash-based, rather than based on banks transfer or cheque transactions. In the medium term, however, the prices in this sector could regain some levels as developers rebalance their prices (probably charging more on cheque payment).

**7. Effect on GDP:** The GDP formation could be impacted by this measure, with a 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.

**8. Effect on Banks:** As directed by the Government, the 500 and 1000 Rupee notes which now cease to be legal tender are to be deposited or exchanged in banks (subject to certain limits). This will automatically lead to more amounts being deposited in Savings and Current Account of commercial banks. This, in turn, will enhance the liquidity position of the banks, which can be utilized further for lending purposes. After Demonetization all the three sectors face negative impacts After Demonetization all the three sectors face negative impacts

**9. 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 interested. It will be converted into active liquidity by the savers when full-fledged new currency supply takes place. This means that new savings with banks are an 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 these savings are obtained by biggie public sector banks like the SBI. They may reduce the interest rate in the short/medium term. But they can't follow it in the long term.

**10. Loss of Growth momentum:** India risks its position of being the fastest growing largest economy: reduced consumption, income, investment etc. may reduce India's GDP growth as the liquidity impact itself may last three-four months

### Advantages of Demonetization

1. The Demonetization policy will help India to become corruption-free. Those indulging in taking bribe will refrain from corrupt practices as it will be hard for them to keep their unaccounted cash.

2. This move will help the government to track the black money. Those individuals who have unaccounted cash are now required to show income and submit PAN for any valid financial transactions. The government can get an income tax return for the income on which tax has not been paid.
3. The move will stop funding to the unlawful activities that are thriving due to unaccounted cash flow. Banning high-value currency will rein in criminal activities like terrorism etc.
4. The ban on high-value currency will also curb the menace of money laundering. Now such activity can easily be tracked and the income tax department can catch such people who are in the business of money laundering.
5. This move will stop the circulation of fake currency. Most of the fake currency put in circulation is of the high-value notes and the banning of 500 and 1000 notes will eliminate the circulation of fake currency.
6. This move has generated interest among those people who had opened Jan Dhan accounts under the Prime Minister's Jan Dhan Yojana. They can now deposit their cash under this scheme and this money can be used for the developmental activity of the country.

### **Disadvantages of Demonetization**

1. The announcement of the demonization of the currency has caused huge inconvenience to the people. They are running to the banks to exchange, deposit or withdraw notes. The sudden announcement has made the situation become chaotic. Tempers are running high among the masses as there is a delay in the circulation of new currency.
2. It has deeply affected business. Due to the cash crunch, the entire economy has been made to come to a standstill.
3. Many poor daily wage workers are left with no jobs and their daily income has stopped because employers are unable to pay their daily wage.
4. Further, many people have clandestinely discarded the demonetized currency notes and this is a loss to the country's economy.

### **VI. Conclusion**

Demonetization is one key step in sweeping the corruption and to bring most of the unregistered processes into taxation. I would say just observe the 1st year of Modi's governance. He literally struggled to manage inflation, corruption, lower tax returns and terrorism. Since, from the beginning, Prime Minister Mr. Narendra Modi more focused on forming an efficient hardworking and honest team. Next one year he has focused on taking bold steps, which has dismantled the fake money laundering and unregistered cash in one shot. Once the currency was demonetized, they made it mandatory to link Aadhar Number to bank accounts and to PAN Card. With these details, Income Tax departments will track all the details easily and can stalk the suspects effectively. They can easily figure out one's actual income itself with details of his assets. The impact of demonetization was felt more in the social sector and the worst affected was also the poor and the common

people. Salaried classes were not able to withdraw their salaries from their bank's accounts and ATMs as a result of cash deficit. Prime Minister Modi has encouraged doing financial transactions using mobile and other electronic means. It is clearly evident that India is moving towards a cashless economy. This will curb the black money to a great extent but educating the masses on the mobile-based money transaction is a huge challenge. Finally, as a relief to poor people, GOI has announced that black money retrieved from the demonetization measure will be deposited for four years without interest on Kalyan Yojana to benefit the poor in marriage. This will create a positive impact on the social sector in the long run. Demonetization should be done from time to time which will keep external threats at bay and will not let the other civil servants loot the public. Demonetization must be carried out by a different government governing body separately so that it should not create a mess for the public all of a sudden.

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