

# IMPACT OF DEMONETIZATION ON INDIAN ECONOMY

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**ABSTRACT:** This paper analyses the short term costs and medium term benefits of demonetization and its Impact on the growth of various sectors of an economy where significant cash transactions are involved. It is evident from observed data that the impact of demonetization on Gross Value Added growth was modest. Demonetization is a monetary policy which functions to remove currency of higher denomination which is currently in circulation. Reasons for its execution are restricted to each government and the need of the people. Although in best interest of the country and stabilizing the economy, demonetization reaches to sectors both organized and unorganized. Its effects are socio-economic which results in the desired outcome planned before, while bringing the policy in effect. Measures by the Government of India to demonetize with effect from 8th November 2016 will redefine business and investment in India and will lead this country to where it really belongs, in a league of developing nations contributing to the development of the entire world. The outcomes post demonetization has been discussed and its future implications have been mentioned in this manuscript. The assumptions made while applying policy change regarding the creation of urge to learn and implement smart IT solutions have also been mentioned illuminating desire for technological growth in the country. The article also follows through both advantages and disadvantages of demonetization. Monetary Policy change, establishing business in a new economic environment.

**Keywords:** Demonetization, Black Money, Government, Corruption & Currency Etc.

## INTRODUCTION:

On the 8th of November, 2016 when the sun had descended below the horizon and the light of day had completely faded, when people were returning back home from a long day at work, a misty light of a new economy was brewing over the country. All 500 and 1000 banknotes of the Mahatma Gandhi Series ceased to be legal tender in India from 9 November 2016.

After the announcement that 500 and 1,000 rupee notes were no longer legal tender; people were given 50 days to deposit them in bank accounts or exchange them for new notes at banks and post offices, when only half of Indian adults have bank accounts. By withdrawing 86

percent of circulating currency when 70 to 80 percent of transactions are cash-based, the Indian government has burned down its economic house in order to eradicate the pest of corruption.

The announcement immediately triggered a mad scramble to unload the expiring banknotes. Though people had time until the end of the year to deposit the notes in bank accounts, doing so in large quantities could expose them to high taxes and fines. So they rushed to gas pumps, banks, foreign-exchange counters, ATMs, to jewelry shops, and to creditors to repay loans and several deaths were linked to the inconveniences caused due to the rush to exchange cash. There was a spike in donations in the form of the demonetized notes in temples in the form of defunct notes. People started making multiple transactions at different bank branches and also sending hired people, employees and followers in groups to exchange large amounts of banned currency at banks. The Indian Railways authorities found that a large number of people started booking tickets particularly in classes 1A and 2A for the longest distance possible, to get rid of unaccounted cash. People used the demonetized 500 and 1,000 notes to pay large amounts of outstanding and advance taxes. As a result, revenue collections of the local civic bodies jumped.

Only 5 percent of Indian workers' pay income tax, just 15 percent of the economy is inside the tax net and India's tax to GDP ratio at 17 percent is 5 points lower than comparable countries. Because of high property taxes, buyers collude with sellers to understate the sale value and split the tax difference. India's wealthy, who are less reliant on cash and are more likely to hold credit cards, park illicit wealth in Indian and overseas real estate, shell companies, shares, gold and overseas bank accounts, are relatively unaffected. The poor and the lower middle classes, however, rely on cash for their daily activities, and thus are the main victims. Only 5 to 6 percent of India's illicit wealth is estimated to be held in cash components. The rich have engaged "mules" to line up and exchange their currency for them while the "common man" faces hardships in the daily purchases of food, medicine, bus and rail tickets, and so forth.

The government claimed that the demonetisation was an effort to stop counterfeiting of the current banknotes allegedly used for funding terrorism, as well as a crackdown on black money in the country. The move

was described as an effort to reduce corruption, the use of drugs, and smuggling.

However, in the days following the demonetisation, banks and ATMs across the country faced severe cash shortages. Also, following Modi's announcement, the BSE SENSEX and NIFTY 50 stock indices crashed for the next two days.

The term demonetisation has become much more than a household name since the old Rs 500 and Rs 1,000 notes were pulled out of circulation. While as per dictionary demonetisation means "ending something (e.g. gold or silver) that is no longer the legal tender of a country", one needs to understand that there is much more than the literal meaning to the word.

One need to understand that 80% of India's labour force is employed in the informal sector, which comprise of 45% of the GDP of our country. Over 60% of population of India lives in below the international poverty threshold line of 1.9\$ per day. Since our economy is an under banked economy, present demonetization move, would no doubt cause a severe social experiment, across the segment of our population. At the first place, and on a short term basis this move would benefit the Government, which shall effectively deploy its resources to percolate the impact to the poor and needy of our country.

#### **Impact of demonetization on common person of India-**

Demonetization is a generation's memorable experience and is going to be one the economic events of our time. Its impact is felt by every Indian citizen. As the country says goodbye to the old Rs. 500 and Rs. 1,000 rupee notes and with restrictions on exchanging money and taxation on high amounts of deposits, Indian economy had faced through some serious churns. But how is this going to affect the common person of India in the short run as well as the long run. Initially, there was a huge hue and cry about the idea, people had to wait in really long queues just to withdraw the necessary money they needed. The public doubted prime minister's plan and revolted against the bad preparation they faced in this regard. The changes did invite a lot of trouble to the public in the beginning but it all seemed worth that, as far as the long-term effects were concerned. There was a limit to the per-capita withdrawal and that was a huge issue for many people, mainly because of their personal requirements which included marriage, health, property etc. In the process of curbing black money the innocent common people and poor had seemed most suffered like, those people who do not have access to post offices and banks had seemed panicking for exchanging notes. Those families who had weddings and other special

occasions are depressed due to lack of money thousands of weddings have been cancelled which impacted the vendors who supply for those weddings. Also, farmers have faced lot of problems because they could no longer afford to sell their harvest from Kharif crop or sow Rabi crops. Also Many street vendors have loosed their business because do not want to part with cash or cannot make change. People have cut back spending because the banks are rationing cash. Many Daily wage workers are unable to find work. Also Demonetization has a direct impact on sectors dealing with cash—vendors, auto rickshaw owners, taxi drivers, daily wage earners and small traders. The Indian system mainly functions on cash, and so, less cash means disruption in the flow. Therefore, the government's step to curb black money and fake currency has hit hard to poor people the most. But as the time passed the things slowed down a bit. The queues in the banks shortened, ATMs were filled with money, new currency circulated and all these normalized the situation. Nevertheless, this change will have a huge impact on the economy. It will take some time for things to become normal again and for now, it is just a play of time till we get to know whether it was a really good decision or an overrated implication.

The demonetization of Indian currency has created numerous hardships to common person but in long way it has lot of advantages.

1. To the extent of penalties imposed by the Income Tax department on the illegal conversion of black money into white money, the revenue to the government will increase in the immediate future.
2. Unaccounted monies held as cash which was not productive will become productive as it enters the legal system.
3. Counterfeit money in circulation which was a ongoing menace all over India will cease to exist with immediate effect.
4. Funding of terrorist and other illegal activities will be curtailed as they generally are funded by black/counterfeit money.
5. To the extent the black money held by the political parties is flushed out, the elections in the near future will be clear and more transparent.
6. With huge cash at the disposal of the banks, the borrowing of money will get cheaper providing impetus to economic growth.
7. Government can avail finances at lower rates and speed up the infrastructural spending creating huge job opportunities.

So far, it can be said that this is a historical step and must be supported by everyone. We should look at the bigger picture which will definitely fetch results in the future.

This is what the whole country has been asking for a long time which has finally happened.

**The impact of demonetization on agricultural sector and farmers of rural India:-**

Agriculture plays an important role in the Indian economy. Over 70 % of the rural households depend on agriculture. Agriculture is the backbone of Indian economy as it contributes about 17% to the total GDP and provides employment to over 60% of the population. It also provides raw materials to leading industries such as cotton textiles and sugar industries. The number of various agricultural commodities like tea, coffee, spices and tobacco constitutes our main items of exports. This amounts to almost 15% of India's total exports. Hence agriculture provides foreign exchange which helps us to purchase machines from abroad. It also maintains a balance of payments and makes our country self-sufficient. Agriculture has brought fame to the country. India holds first position in the world for the production of tea and groundnuts, Indian agriculture has registered speedy growth over last few decades.

**CONCLUSION**

Demonetization is a one step of many steps in fighting corruption, black marketing, and financing insurgency. However preparation for demonetization was lop-sided, and its impacts was terrible on Indian public. If 86% of cash is taken out, with a meagre amount available, all market transactions have been killed. The people, who were targeted, did not come on streets, but common folk are out from their work places as well as homes. , Somebody put a parable on social net. For killing ten crocodiles, government pumped out all water from the pond results killing ten thousand fish in pond but Crocodiles walked off on dry sand. With an intention to rid the country of black money and dig out tax defaulters and black money holders, government has taken step to

demonetized Rs 500 and Rs 1000 notes. This move will have major impact on the parallel economy but sudden announcement and failure to prepare in advance has created temporary chaos and discomfort among the general public. Common Men are finding it difficult to buy with no money in pocket, wasting hours in queues which although could have been avoided if planned in advance.

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