

DEMONETISATION: ITS IMPACT ON INDIAN ECONOMY

Priyanka Sharma

Faculty (Part time) Department of Economics, Cotton University, Assam, India

ABSTRACT:

Demonetisation refers to the act of stripping a currency as legal tender. In demonetisation the current form of money is removed from circulation and retired. It is an economic process in which a country's currency unit is no longer legal tender. Demonetisation is a move in which a government bans the notes or coins of a certain denomination. The honorable Prime Minister Narendra Modi announced demonetisation in India on November 8, 2016 where Rs 500 and Rs 1000 notes were withdrawn from circulation. It was a major event of the year 2016. The present paper attempts to explain the meaning of demonetisation, examine the reasons for demonetisation, find out the extent of demonetisation, explore the positive and negative impact of demonetisation on Indian economy and also provides suggestions. The present study is based on secondary data and the secondary sources includes books, journals, websites, magazines, newspapers etc

KEYWORDS: Demonetisation, black money, corruption, cashless economy, digitization etc

INTRODUCTION:

Demonetisation refers to the act of stripping a currency as legal tender. In demonetisation the current form of money is removed from circulation and retired. It is an economic process in which a country's currency unit is no longer legal tender. A currency unit is what we would commonly refer to as physical money such as bank notes and coins. When demonetisation occurs, the country's currency unit is essentially worthless and can be no longer be used to carry out day to day transactions Furthermore, the replacement of this form of money occurs with new notes or coins. Sometimes, a nation completely introduces a new currency in place of old currency. Demonetisation is a move in which a government bans the notes or coins of a certain denomination. The honorable Prime Minister Narendra Modi announced demonetisation in India on November 8, 2016 where Rs 500 and Rs 1000 notes were withdrawn from circulation. It was a major event of the year 2016.

RATIONALE OF THE STUDY:

The present study is justified on the ground that demonetization has been used as a tool to stabilize the currency and fight inflation, to facilitate trade and access to markets and to push informal economic activity into more transparency and away from black markets

OBJECTIVES:

- To understand the meaning of demonetisation
- To find out the extent of demonetisation
- To explore the reasons for demonetisation in India

- To study the positive as well as negative impacts of demonetisation on Indian economy.
- To provide suggestions

REVIEW OF LITERATURE:

Lokesh Uke (2017) titled as Demonetisation and its effects in India where he studied the positive and negative impact of demonetization in India and the study was based on secondary data. The main purpose of demonetization is to eradicate black money and diminish corruption. He expressed that Government of India has been successful to some extent. Demonetisation had negative impact for a short duration on Indian financial markets. But he pointed out that the real impact will be shown in the future.

Sweta Singhal (2017) titled as Demonetisation and E- banking in India was a case study to check the awareness level of people in rural areas in India about e-banking facilities and how much it has increased after demonetization.

Varshith J.R, (2016) in his study has stated that the move to demonetize Rs.500 and Rs.1000 currency tenders by the union government of India during the year of 2016 was a laudable and historic effort to clean up the decades'long corruption and black money.

V.Gupta (2016) points out that the main objective of this move was to curb the black money, corruption and fake money menace.

METHODOLOGY:

The present paper is based on descriptive and exploratory research. It is descriptive in the sense that proper description has been made regarding the meaning of demonetisation in India and the various reasons for it. It is exploratory in the sense that here the various impacts of demonetization on Indian economy which can be positive as well as negative have been identified. The present study is based on secondary data and the various secondary sources includes books, newspapers, magazines, journals, websites etc

EXTENT OF DEMONETISATION:

November 8, 2016 was considered to be a doom's day for the holders of unaccounted cash since demonetisation of Rs 500 and Rs 1000 notes led to a massive loss of liquidity in the Indian economy. According to RBI report, demonetised currency on (November 8, 2016) valued at Rs. 15.4 trillion . It amounted to 86.9% of the value of total currency in circulation.

REASONS FOR DEMONETISATION IN INDIA:

Demonetisation though rare still countries around the world have conducted demonetisation measures for various reasons. Government chooses to undergo demonetisation as the currency gets out of control due to the problems of hyperinflation. To prevent criminal actions such as counterfeiting, terrorism or tax evasion government made such a move.

POSITIVE IMPACT OF DEMONETISATION ON INDIAN ECONOMY:

1. Check on food inflation:

Owing to a substantial withdrawal of currency in circulation, demonetisation led to a check on food inflation in the economy. Liquidity crunch led to a substantial fall in stock piling of foodgrains. Accordingly, there was a sharp fall in food inflation by about 240 basic points between November 2016- January 2017.

2. Elimination of fake currency:

There was 100% elimination of fake currency (counterfeit currency) from the economy. The racketeers of fake currency were badly hurt just with one stroke of the government.

3. Surge in Cash deposits:

There was a surge in cash deposits in Jhan Dan Accounts. This promoted financial inclusion to its top gear. According to RBI estimate, Rs. 11.5 lakh crore money was deposited in the banks following demonetization.

4. Attack on Hawala Transactions:

Hawala transactions (hidden transactions and transfer of money) were deeply hurt as cash almost evaporated from the economy.

5. Realization of Overdues:

People rushed to clear their overdues related to bank loans, property tax, electricity bills etc. because the government provided a window of clearing the old dues by using the old (demonetized) currency

6. Push towards digitization:

With cash almost disappearing from the market, people were driven to digital modes of transactions. This was a big move towards cashless economy. It also promoted banking habits of the people, a big leap towards financial inclusion.

7. Tax Compliance:

A shift from cash to banking transactions led to better tax compliance. The government recorded a noticeable rise in tax to GDP ratio.

8. Real estate cleansing:

Demonetisation led to a deep cleansing of real estate sector. This sector served as the centre-stage of shadow economy. With the eradication of black money following demonetisation real estate sector lost its sheen for speculative investment through black money. Prices in the real estate sector have crashed and housing is becoming more affordable for the middle and the lower sections of the society.

NEGATIVE IMPACT OF DEMONETISATION ON INDIAN ECONOMY:

1. A Deep Hurt to Economic Sentiment:

The idea of banning nearly 86% of the currency in circulation led to a serious cut in monetary base of the country: the monetary base declined from Rs 22.5 trillion to Rs 13.7 trillion and this caused a deep hurt to economic sentiment in the domestic economy. Economic activity is driven by economic sentiment and if economic sentiment is hurt, economic activity must suffer. Consequently, following demonetisation, all parameters of economic activity (production, consumption, investment and exchange) received a big jolt. The producers planned lesser output, consumers planned lesser consumption, investors planned lesser investment and exchange started shrinking and there was an environment of economic slowdown.

2. Large -scale lay off in unorganized sector:

Nearly 90 percent of the workforce in India is engaged in the informal sector in order to earn their livelihood and they are highly cash dependent and cash sensitive. A huge cut in liquidity following note ban led to an instantaneous cut in production activities.

Consequently, there was a large scale lay off in unorganized sector and daily wage earners lost their jobs immediately after demonetization.

3. Dent in GDP growth:

Massive lay-off and declining economic sentiment implied a significant dent in GDP growth. According to most estimates including one by Prof. Manmohan Singh, the former Prime Minister of the country), there was nearly a 2 percent decline in country's GDP growth as a consequence of demonetisation.

4. Slump in Real Estate:

Demonetisation has led to slump in real estate sector of the economy. This sector has been one of the prime GDP drivers in the Indian economy. No doubt, demonetization has cleansed this sector of black money transactions. But at the same time, purchase and sale in this sector has touched the rock-bottom. Construction activity has been severely hit while inventory has piled up. Opportunities of employment have dried up. The hope of revival of this sector is rather bleak and remote. Stagnation of real estate sector is bound to be a serious bottleneck in the overall growth process of the Indian economy.

SUGGESTIONS:

- The government should take necessary measures to remove the negative impact of demonetisation on Indian economy and for this, the government can formulate a special committee which comprise of experts from various sectors. The government should from time to time publish the data regarding demonetisation to develop awareness among the people about the progress.
- Educate everyone about the use of e-wallets and debit card and credit cards so that the purpose of making our economy to be a cashless economy turns into reality.
- Workshops and seminars should be organized for people of rural areas who are not aware of net banking system.
- More branches should be opened in rural areas where there is no banking facility.
- Zero balance bank account should also be opened up in private banks so that it can attract low-income groups or people of rural areas.

CONCLUSION:

Economists are busy in pointing out the pros and cons of the demonetization policy but the government opines that the former outweighs the latter. Even though there is suffering and agony among the masses but the government is very optimistic and point out that the benefits of this policy will be evident in the long run. Note ban in India has shown good result in the elimination of black money and eradication of corruption. Government should take all the necessary measures to minimize the hardships being faced by the public. It is expected that demonetisation policy will definitely bring about positive changes in our economy.

REFERENCES:

- [1] Varshith J. R., (2016). Demonetization of Rs 500 and Rs 1,000 currency, a boon to common Indian citizen. This is a community article, India, P-1-4
- [2] V. Gupta (2016). An Essay/ Article on demonetisation in India with its social and economic impact. New Delhi, India. P2-6

[3] Lokesh Uke (2017) SSRG International Journal of Economics and Management Studies
“Demonetisation and its effect in India. Volume 4.Issue 2.

[4]<http://indianexpress.com/article/india/indianewsindia/india-has-demonetised-high-value-currency-beforein-1978-4364851>

[5]<http://www.indiaspend.com/specialreports/indiademonetizes-currency-after-36-years7560>

[6]<http://www.investopedia.com/terms/d/demonetization.asp#ixzz4XUuBxoQJ>

[7]<http://www.livemint.com/Money/WZMX0fj5YQKOU4l6P0J44I/Demonetization-of-rupee-has-hit-the-Indian-markets.html>

[8]<http://www.indiatimes.com/news/world/here-s-a-list-of-countries-that-have-trying-demonetisation-before-india-265743.html>

[9] Newspaper: The Economic Times, Dec2016 The Hindu, Nov2016-Dec2016