

Demonetization and Its Effects in India

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Abstract

On 8 nov 2016 Indian Government had taken a bold decision of banning the circulation of 500 and 2000 notes. The Central Government was judicious well thought out and had taken a well implemented step. This a measure was taken for the Prime Minister to solve the problem of corruption, black money and counterfeit money. This study will help us to know about the positive and negative effect of the demonetization. This study is based on secondary data like magazines, internet, research paper through some companies etc. and to analyse all the aspects of demonetization and calculate the worse and better effects of it on India. It also studies the demonetization in other countries and compare it with India.

Keywords : Demonetization, GDP, Indian Economy, Black Money, Corruption.

JEL Classification : A 10, E 41, E 42, E 52.

1. INTRODUCTION

Government started start the demonetization with the banning of 500 and 1000 rupee currency After printing the 500 and 2000 legal tender money now govt. prints the new currency of 50 and 200 also.

2000 have the greatest monetary value but absence intermediate denomination like 500 and 1000 rupee will reduce the utility of 2000. Effectively, this will make for Rs. 2000 it can be a store value less useful as a transaction currency though denomination.

The govt. stated objective behind the demonetization are as follows.

- To make India corruption free.
- To solve problem black money
- To make cashless society and to promote a digital India.
- Improve condition of Indian currency
- To crack down on terrorism

2. HISTORY OF DEMONETIZATION AND CONTEXT IN INDIA

India has twice the experience of demonstrating its currency. The first was when ₹ 1000, ₹ 5,000 and ₹ 10,000 notes were withdrawn from circulation January 12, 1946, half a year before independence. This highest denomination note ever printed by the RBI in India was ₹ 10000 notes first introduced in 1938 however the three ₹ 1000, ₹ 5000 and ₹ 10,000 notes were traced back in 1954. The second



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phase of the devaluation was made January 16, 1978, when an order was issued to remove notes with the denominations of ₹ 1000, ₹ 5,000 and ₹ 10000. On January 12, 1946, the devaluation was used, but the investigation committee for direct taxes, which in its interim report: "The devaluation is not successful, because only a very small proportion of banknotes in circulation 19461235.93 crore traffic was pulled". On 16 January 1978 the devaluation of the high nominal ticket was introduced the marks of high demonetization amount to as ₹ that day 146 crores and total tickets are subject to RBI rising to ₹ 125 crore based on available data until August 1981.

3. DEMONETIZATION IN OTHER COUNTRIES

The measure of demonetization is the not A new concept for the world. The French was the first to use the word demonetize, in the a focus between 1850-1855. There were are other nation that tried demonetization in the past in the economy.

The given table give the details of demonetization efforts by the countries around the world.

Table 1.
Demonetization in Other Countries

S. No.	Country	Year of demonetization	Reason
1.	Nigeria	1984	To curb black money
2.	Ghana	1982	To humble tax evasion
3.	Zimbabwe	2015	To solve the problem of hyper-inflation
4.	North Korea	2010	To barish the black money.
5.	Australia	1996	To stop counterfeiting.
6.	Myanmar	1987	To curb black money.
7.	Soviet union	1991	To end black money'

Russia : In his last steps, the a country under the Mikhail in a January 1991 removed the a bills on the large a rubles to the attack the to shadow economy. The reform did not stop inflation and was mainly used to reduce public confidence in the government. When the political struggles were accompanied by economic collapse, Gorbachev faced a coup attempt in August that destroyed his authority and led to the dissolution of the Soviet Union the following year. Lessons learned the Russian conversion of the ruble in 1998, when he removed three zeros, went quite smoothly.

North Korea : In 2010, then-dictator Kim Jong-Il launched a reform that swept two zeros out of the face value of the old currency to boost economic control. and close the black markets. Together with a bad harvest, the measure left the country according to the reports at that time with a severe food shortage. Rising rice prices have provoked unrest, which has led to unusual excuses by Kim and reportedly leading to the execution of the ruling party's chief financial officer.

Zaire : The dictator Mobutu Sese Seko faced growing economic turmoil in the early 1990s as his a administration switched to successive banknote reforms. A plan to withdraw the obsolete currency of the system in 1993 led to an increase in inflation and a collapse of the exchange rate against the dollar. After a civil war Mobutu was ousted in 1997.

Myanmar : In 1987, the country's military junta invalidated up to 80% of its value, according to the reports of the time – as in other initiatives of this kind – it aims to curb the black market. One result was the first student demonstrations in years. The escalating economic misery contributed to mass demonstrations throughout the country the following year, leading to a violent crack down by he government that killed thousands of people.

After studying the demonetization of other countries and India . We come to know

that many countries including India have the same how same reason behind the demonization. but in other countries demonization did not take place suddenly therefore with proper arrangement demonetization may not the economic growth of other countries as it resulted in India.

4. CAUSES OF DEMONETIZATION

The govt on demonetization to make the india better one or digital one or we can say corruption free. The causes of demonetization are as follows.

- Blank marketing
- Currency storage
- Corruption
- Fake currency in circulation

5. VIEW OF SOME ECONOMIST ON DEMONETIZATION AS ON FEB 2017

Amartya sen: He said that million of innocent peoples have deprived from their money and being suffered to get their own money back.

Kaushik basu: according to him the policy of deposits money up to 2,50,000 a reated a new black market. He also said it hurts innocent people who has no illegl money.

Aurn shourie: In his interview with NDTV he said that demonetization is not poke on black money black money owners converted their money in intangible and tangible assets.

Dr. Manmohan singh: he said demonetization is an organised root. He said the way of implementation of scheme will harm agricultural sector, small scale industries and informal sector of a economy.

Hawala fransaction end: Most hawala transactions were carried out in 500 and 1000 with this ban uncthical hawala traders cannot trade anymore. Using demonization of 500 and 1000.

Aurn jaitely: According to Indian express Mr. Aurn jaitely gave his option on demonization is good for economy . because Indian banking

face the problem of NPA since few last years now bank will have more money to lend for many sector of economy.

6. PROS AND CONS ON DEMONETIZATION

(i) **Pros :** Attack on the holder of black money: People with a huge amount of black money are now completely lost. Your black cash is now a hasty pie. If you want to deposit money into the bank. That they have to show their identity.

In case of exceeding the limit, you have to pay the penalty of 200% on IT. Death knows how to make false grotesques: most of the counterfeit money was in the Denomination of 500 Ruppee and the slogan of 1000 Ruppee by prohibiting the 500th coin of 1000 the Prime Minister broke these thugs.

End of Terrorist Financing: A huge sum of \$ 500 and \$ 1000 was used to finance. The now banned Islamism terrorism will lead to a shortage of funds and make the purchase of weapons extremely difficult. Transparency: online transaction plus financial transaction intellenge unit will transfer every transaction online. End of the big donation: Some people with money use donations of 500 and 1000 denominations in the private education and health sector. Now they will not be able to simply make money, even with real estate to advertise.

ii) **Cons :**

a) **Rush at banks :** sudden announcement of demonitisation results in huge crowds in banks. People forget about everything else.

b) **Shortage of money to common people :** No proper decision before demonetization make common people to face problem of shortage of money as they can only withdraw the maximum amount of 20000 per week.

c) **Stock market:** stock market was completely eariser senser lost 1600 points. Problems for house wife: Many

Indian wife store money to help their family in financial crisis.

- d) **Problems of festival session:** At time of demonetization family having wedding at that time have face many difficulties.
- e) **Short term inflation:** Due to shortage of money in market a short term cost push inflation will occur.

7. SOME OF IMPACTS OF DEMONETIZATION ON INDIAN ECONOMY

a) Effects on parallel economy

- Removal of there 500 and 1000 notes and replacement of same with 500 and 2000 rupee note is expected to exact black money from economy as they will block since owners will not be in position to deposit save in bank.
- Temporarily stall the circulation of large volume of counterfeit currency.
- It would scrub the funding of anti- social elements like smuggling, terrorism etc.

b) Effects on money supply

- With the older 500 and 1000 notes being scrapped unit the new 500 and 2000 notes get widely circulated in market it result in reduction in money supply in short run.
- To the extent that black money does not re enter the system, reserve money and have money supply will. Decrease permanently.
- When the new notes circulated in market and all the mismatch get covered the supply money increases.

c) Effects on Demand

- Overall demand should be affected to some extent. The demand in the following zone must be influenced in particular:
 - consumer Goods in the economy
 - Real state
 - Gold and luxury fountain
- Demand for the above sectors is increasing with the cash transaction and cheque transactions.

d) Effects on price

The price level should be lower due to moderation on the demand side. This demand-related price decline should be understood as follows:

- **Consumer Goods:** Prices would be expected to decline for slightly due the weak demand in the economy to the use cheques & cards should be offset some of purchases for that goods.
- **Real State:** The price of this sector is expected to fall primarily on the sales of the goods where the transaction is cash-based also on RTG facilities also required.

e) Bank Deposits will be increased

The demonetization concepts increased the deposit of the current account and the Saving Bank Account. For Govt also.

Announce the demontized, in the currency held TO the household Sector for the Emergency purposed SHOULD be a deposit with bank account.

The banks, which Will increase in the deposits in the bank Accounts

f) Alternative Modes of The Transaction Should be increase

The Concepts of Demonetization of the cash mode are facing very reduction ,which increases the other Alternative modes of transactions use of a Credit cards, THE Debit cards of online payments AND Transactions AND CASH BASED Transaction.

g) GDP will Decrease in the Short Run

Gross domestic product should be the hurt due such the demonetisation. Gross domestic product in the India may be falled as a result to the demonization . The extened in the economy.

- Falled should be very low And it's is exists for very short durations to the time. This falled a should not affected the growth of the Economy.

8. SECTOR WISE IMPACT ON ECONOMY

a) Banking sector

- About three trillion rupee in the old INR 500 and NR 1000 bank notes get deposited in banking system.
- 500 billion rupee via, withdrawal from bank according ATM etc.
- In a use of the debit and credit card AND ALSO VARIOUS TYPES OF CARD Post demonetization SHOULD BE reported in the economy.

b) Business

- By the 2nd week of demonetization scale of cigarrate withnesed .
- E-commerce are company say that up to a 30-40% reduce In Cash On Delivery in the bank accounts .
- E-payment option a like paytm and pay money saw a rise in the economy.
- Real state primary transaction may not be impacted but secondary sales may to same extent.

c) Municipal and local tax

- Allow ability of use of INR 500 and 1000

notes to pay local taxes resulted in positive in revenue collection.

d) Agriculture

- Adverse impact on input-output channels.
- Sale, transport, marketing and distribution of ready product impacted.
- Increase waste the perishable
- Lower revenues Should say that trade dues to instead of the Cash in a lead.

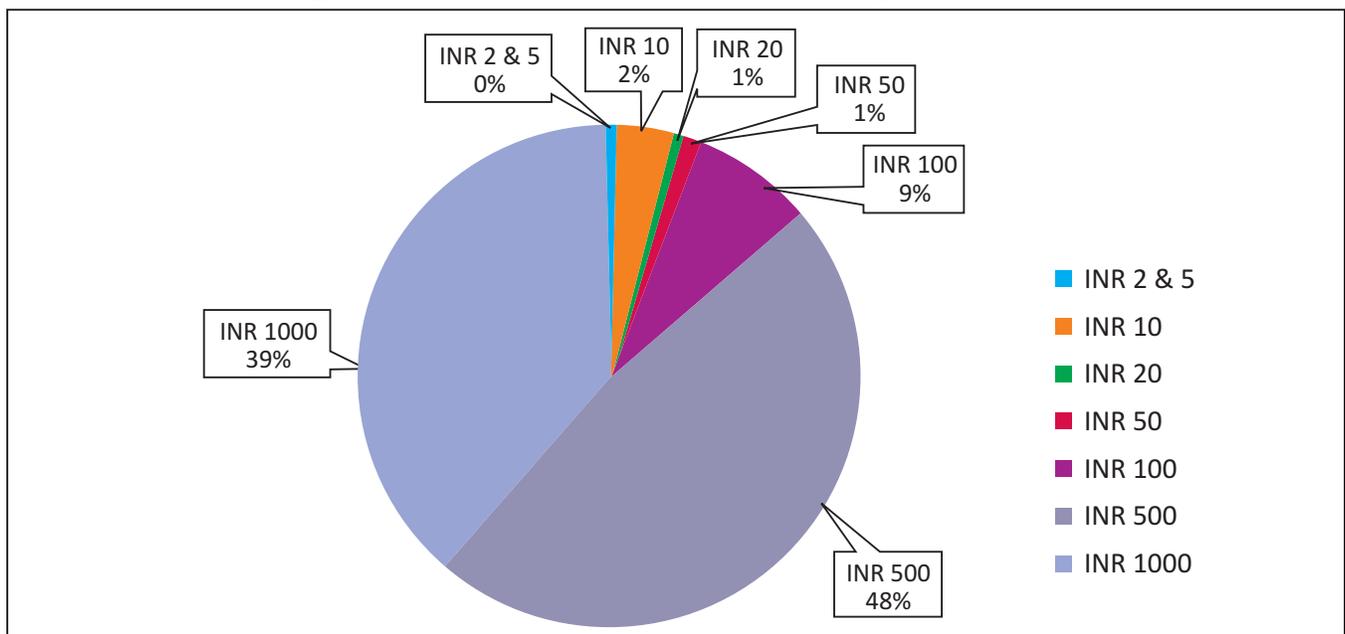
9. OVER ALL IMPACT IN SHORT RUN AND LONG RUN

a) Short run

- Whooping positive in cash deposits at banks and reduce in black money.
- No affect on stock of black money which had been invested and held in other forms of assets like beuami properties in land and real estate, gold, paintings etc.
- Positive in proportion of other assets in which black money is held with different level of different and challenges to trace the same.

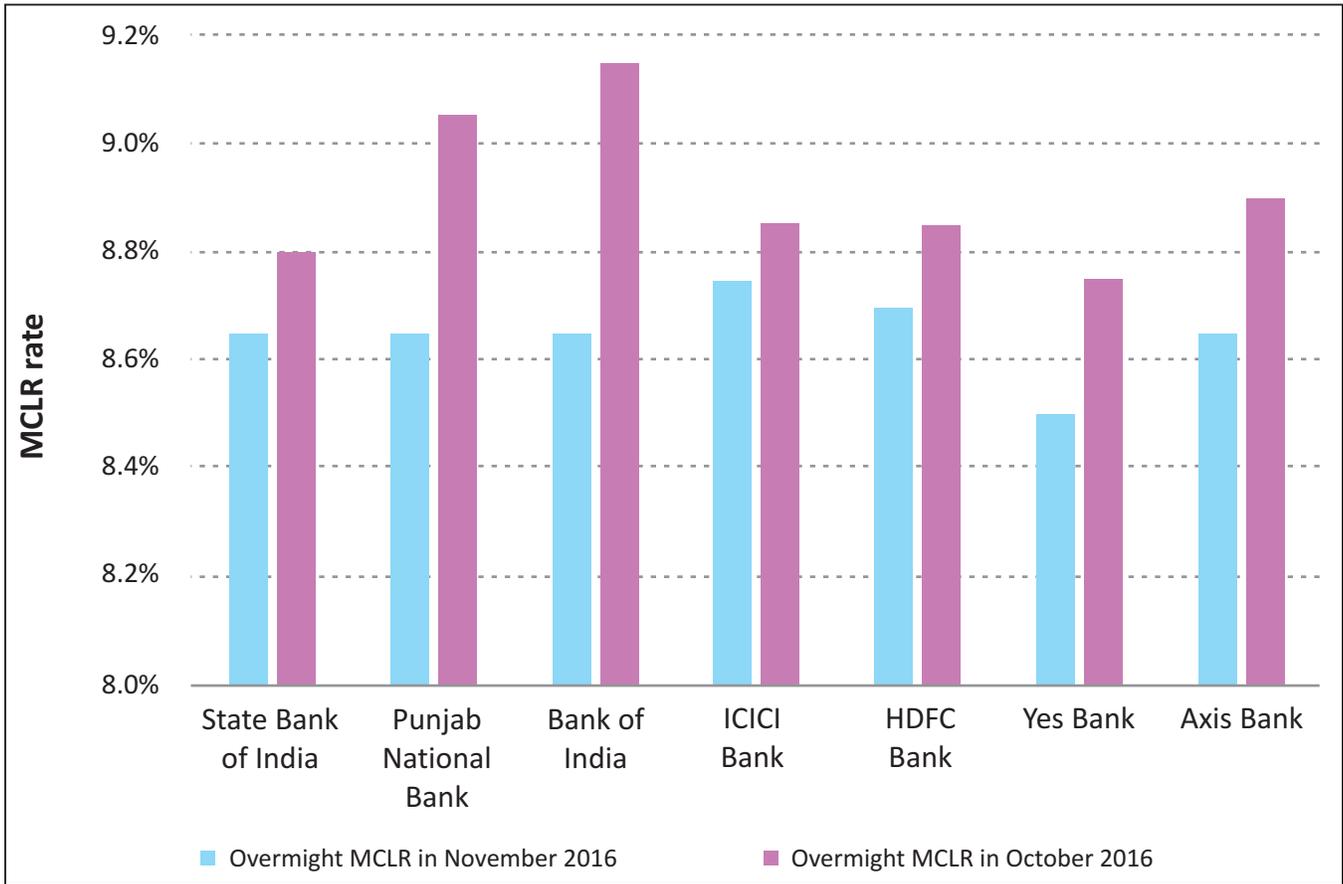
Figure 1.

**Impact of demonetization on Indian economy
Percentage Share of Denominations in Circulation by Value in FY 2015-16**



Source : The Reserve Bank of India

Figure 2.
Impact of demonetization on loan from bank in India
MCLR of Some Indian Bnaks

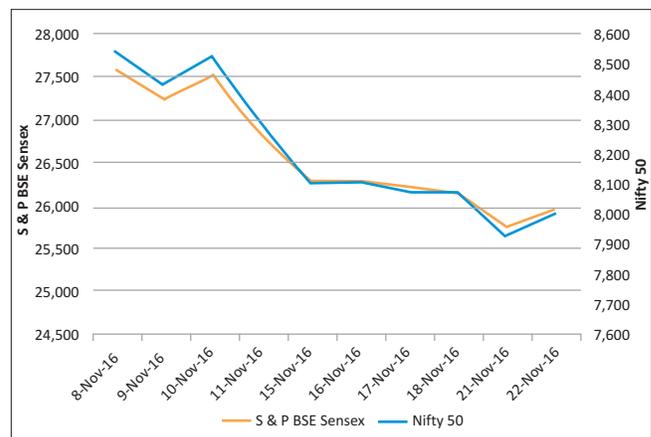


Source : The Respective bank's websites

b) Long run

1. Psychological impact on society on according of this over might more would result move would result in reconsidering before indulging into generation of old money.
2. Greater level of scrutinty at various levels and digitization coupled with sharing of information between various department of government would help to keep a check on parallel economy.
3. Introduction of GST (good and Services tax) to play a keep a check and balance.

Figure 3
Impact of demonetization on Indian financial market
Indian Equity Indices After Demonetization



Source : Exchanges

10. EFFECT ON GDP (GROSS DOMESTIC PRODUCT)

GDP creation could be affected by the measure with reduced demand for consumption :

- However, the recent increase in demand for festivals should be decline in the overall impact
- In addition, these expect effects of gross domestic product (gross domestic product and domestic product) may not be a significant, as part of the demand would not be deferred and will return to the river once the cash flow situation has returned to normal.

11. WILL DEMONETIZATION SLOW DOWN INDIA'S GROWTH?

- Yes, demonetization will the slow the rate of the growth in a Less and long-term teams because PERSON have the less money in their hand. The demand is a therefore low, which is a why it a focuses on the growth rate. But as soon as people a have money, markets will return to normal.
- But the long-term gin is a disputed: Some people IN say That it Will benefit in the economy as a gov. will have more income when his feeling of business already in distress can send him into a coma.
- India is the Cash-Based Economy and demonetisation will be Temporarily reduce liquidity OF this Economy and lead to a decline in a demand that will affect negative productivity, leading to a slowdown in reference markets in the economy.
- Person had panicked because of sudden the Demonetization: this would force them to the saved and stored more money, so the negative Demand leading to a Slowdown in the Market for constants.

12. SO WILL DEMONETISATION ELIMINATE BLACK MONEY?

It just a one-piece moved in the chessboard of black money. Toa check-kills the king of the black money, you must win the Advice. Several Steps SHOULD be required as detailed Aboved. The government can be played All these moves and fail again if A they play incorrectly. All we SHOULD be say that the government is playing well role regard for the economy . But would it not succeed? Efforts Would bring massive sums of money to the banking system, an advantage in itself. Once the money is in the legitimate channel, it should be better used And the income would be generated by its use. If that's enough, then yes.

13. STRATEGIES FOR TACKLING BLACK MONEY

The set of various approaches can be compiled as under:

- Establishing a person's identity (through PAN Card, Aadhar Card etc.) that is operated in the country's citizens and foreign personals.
- Activate electronic property register (Ongoing via electronic land registers, digitization of income registers.
- Reform tax system so that cost of compliance is lower than cost of tax evasion (through initiatives such as Saral forms, e-filing, self declaration etc.) Indirect tax system through simplification (GST).
- Widen the net for disclosure by filing Income Tax return, (auto processing returns for tax refunds).
- Regulations that increase costs for black money creating activities, (Prevention of Corruption Act etc.)
- Create attribution chain for funds entering and exiting the country (such as through P-Notes, FDI Prevention of Money Laundering Act etc.)

- Create e-trails of both incomes and expenditure.
- Control on holding of cash and physical money including Indian and foreign money, (FEMA, recent demonetisation)

14. CONCLUSION

From the prior studies I conclude that overall demonetization has not only bad impact on economy but there is also some positive impact of it.

As demonetization was come into action in order to reduce corruption black money will not lead in reducing black money but we can say that it reduce the corruption partially not fully.

Since demonetization has been used to reduce corruption, black money will not lead to a reduction in black money, but we can say that it partially reduces corruption.

The advantage is very dominant and it will be introduced long term by our country to outweigh the disadvantage.

Government must take all necessary measures to ensure that a fluent exchange takes place.

It will bring about a massive change in the economy, we will continue the entire government and the hidden brains of our democracy, which made this decision.

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