

Impact of Demonetization on Indian Economy

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Abstract:

The demonetization policy of Government of India (GOI) is the current and hot topic of discussion in newspapers, magazines, research papers, articles, books, journals etc. Government decided to demonetize the high-denomination notes i.e. 500 and 1000 Rupees notes, this step has been declared as a master stroke for the Indian economy. Demonetization was done as a positive step towards economic development of Indian economy. There are various advantages and disadvantages of the demonetization policy. There are also multiple reasons why a country demonetizes its currency i.e. to check the inflation, to curb the corruption, for transparency and to promote the cashless transactions. The present study explains the impact of demonetization, its positive and negative effect on our economy.

Keywords: *Demonetization, cashless transactions, ATM (Automated Teller Machine), NEFT (National Electronic Funds Transfer), RTGS (Real Time Gross Settlement).*

Introduction:

Indian Prime Minister Mr. Narendra Modi took a historic decision on November 8, 2016 by announcing that the high-denomination notes (Rs 500 and Rs 1,000) in circulation would cease to be legal tender. With demonetization effort 86% of India's currency was nullified that aimed to wash the stock of 'black market's cash supply' and counterfeit notes out of the economy and convert it into the licit, banked and taxable, part of the economy (Dash, 2017).

Demonetization is the withdrawal of a particular form of currency from circulation. Through demonetization, the old currency is replaced by the new currency or a currency circulation is blocked. This is not the first time that Indian Government has demonetized its currency, earlier it was done in 1946 with the complete ban of Rs 1000 and Rs 10000 notes to deal with the unaccounted money i.e. black money. Second time it was done in 1978 by Government headed by Sh. Morarji Desai, when Rs 1000, Rs 5000 and Rs 10000 notes were demonetized. The main

objective of this step is to unearth the black money, to curb corruption, counterfeit currency as well as terror financing. This step considered as the biggest cleanliness drive against the black money in the history of Indian economy. GoI (Government of India) aimed to make a cashless economy through financial inclusion measures like payment banks, card-based transactions, online transactions, internet banking, NEFT, RTGS etc. (Deepika et. al , 2017).

Objective of the Study: To study the impact of demonetization on Indian economy.

Data source: Present research is descriptive in nature. Present study is based on secondary data information. Secondary data was collected from different books, journals, articles, periodicals, research papers and RBI official website.

Impact of Demonetization: On the midnight of 8th November, 2016 the Indian Government makes a sudden announcement to make the currency notes of high denomination (Rs. 500 and Rs. 1,000) invalid to deal with black money in the economy. The Indian government has introduced new 500 and 2,000 Rupees currency notes. This decision affected poor class, middle class and upper class people in India. The upper class people were the worst hit as they stored 500/1000 Rupees note in huge amount. There are some merits and demerits of Demonization in Indian economy.

Positive Impact:

To Curb Parallel Economy: The main objective of demonetization is to curb black money. Demonetization has made it mandatory for every person in India to deposit their old currency in the banks and exchange them for new currency. This step made compulsory for the cash hoarders to deposit their money in the account and made it accountable. Black money stored in the form of Rs 500 and Rs 1000 currency notes are taken out from the country. Black money operators run a parallel economy which shakes the very foundation of the Indian economy. The demonetization move, will automatically push all domestic black money into the banks with heavy penalty or be simply destroyed.

Reduction in Illegal Activity and Anti-Social Activities: Banning high-value currency will halt illegal activity as the cash provided for such activities has no value now. Black money was usually used to fund the illegal activity, terrorism and money laundering. Due to the demonetisation funding of anti-social activities, smuggling can be curbed. These anti-social activities weaken the economy.

Transparency in Election Process: Huge amount of black money was used during elections to influence the voters. Demonetization will help in making the election process clean and transparent.

Deposits in Jan Dhan Yojana: Now individuals are depositing enough cash in their Jan Dhan accounts which they were reluctant to do so a few days back. The amount deposited can be used for the country's development.

Moving towards Digital Payments: Demonetization encouraged people for using virtual wallets like Paytm, Ola Money etc. The demand of online e-commerce business like Amazon, Flipkart, Myntra etc. also increased after demonetization. Digital payment uses have also increased. India is on the way to a more efficient and cashless economy.

Good Governance: Demonetization is a positive and effective step towards good governance. This measure will increase the rankings of India in various indexes published by World Bank, World Economic Forum, United Nations and IMF etc. Demonetization will enhance the transparency levels in the economy by bringing all transactions in the formal banking sector.

Increased Tax Revenue: There is increasing trend in the tax revenue after demonetization and a positive sign towards the betterment of the economy. Property tax, water tax and other corporation levies in all states have risen considerably. The income tax collections have also risen rapidly. The provision of Income Tax Department monitoring the accounts with more than 2,50,000 rupees deposit and collecting tax with penalties will increase the tax revenue for the government.

Increase in Online Transactions and Alternative Modes of Payment

There is a huge increase in online transactions after demonetization. Digital transaction systems, E wallets and other apps, online transactions using e-banking, usage of Plastic money (Debit and Credit Cards), etc. have substantial increased in day today activities. This will eventually strengthen our economy and positive sign for bright future.

Financial investments:

Investors in the short term will now believe that Cash is not the safest asset and there is little point in hoarding it. This will shift them from physical asset to financial assets where returns are also higher.

Negative Impact:

Public Inconvenience: Public inconvenience was the major disadvantage of the demonetization measure. Demonetisation have short run impact on agriculture, small traders, small vendors etc. as farmers are dealing with the perishable commodities and they do not have other mode of payment other than cash transactions. There was lack of demand due to non-availability of cash which affected the farmers negatively. The same kind of situations was faced by the small traders and small vendors as well. These are the short run effects of demonetisation.

Effect on Poor People: The daily wage earners, other laborers, small traders etc. who reside out of the formal economy uses cash frequently. These sections lost income in the absence of liquid cash. Cash stringency compelled firms to reduce labor cost and thus reduced income to the poor working class.

Reduction in Money Circulation: There was severe shortage of money circulation in the economy. Everyone was having a single 2,000 rupee note and couldn't transact with it in local shops and many other places where swipe machines were absent due to the problem of change. There was severe shortage of 100-rupee notes and with a single 2,000 rupee note, people found it very hard to find change to fulfill their daily needs.

Scarcity of Automated Teller Machine (ATM) Facility: Only 40 percent of the ATM machines had been calibrated to the new currency while the rest of the ATM machines were put out of order. This created a queue in ATM machines and the cash gets exhausted within hours. ATM machines were not fully operational causing further inconvenience to the people. Most of the times, ATM machines were out of cash.

Corruption and Fraud Activities: There were many instances of fraudulent activities like the banking personnel and the post office personnel illegally exchanging the old currency for new currency for a commission amount. The misuse of Jan Dan accounts to exchange black money was also revealed and restrictions were implied on such accounts.

Cost to the Government: Government must bear the cost of replacing Rs. 500 and 1000 notes with other denominations and issuing the new notes.

Reduction in Business Activities: Due to demonetization, the business activities had been negatively affected as the vendors don't have enough change to return to their customers.

Not Fully Effective: Demonetization was mainly targeted at black money holders, but they have found a way around it by getting the currency exchanged from others for a commission of 20 to 40 percent.

Conclusion:

Central government's recent decision to demonetize the high value currency is one of the major steps towards the eradication of black money in the economy. The demonetization process has affected common man, but for larger interest of the country such decisions are inevitable. It may not curb black money fully, but this step helped in curbing black money to large extent. Overall, Demonetization is a bold step towards good governance and for transparency in the economy. Demonetization will push the economy because of flow of more money into the banking system. In the long term, the economy will benefit from the reduction of the black money, which will lead to higher tax collection, better business environment, less corruption & transparency. This process will pay the way towards overall development of the economy.

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