

# Demonetisation on Indian Economy

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## Abstract

India has amongst the highest level of currencies in circulation at 12.1% of GDP. Cash on hand is an estimated at around 3.2% of household assets, higher than investment in equities, or roughly around \$ 220 billion. Of this cash, 89% is in the form of Rs 500 and Rs 1,000 notes or roughly Rs 14-15 lakh crore .A significant portion of the household cash on hand is generated by economic transactions that are not reported to tax authorities or generated through corruption. Scrapping the higher denomination money would either result in these being brought into the system or the money just disappearing. Demonetization refers to Withdrawal of a particular form of currency from circulation. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be removed and substituted with a new currency unit. The currency was demonetized first time in 1946 and second time in 1978. discuss the impact of recent demonetization on the Indian system.

**Keywords:-** Demonetization, Black Money, Counterfeit Currency, Corruption.

## Introduction

Demonetization of currency means discontinuity of the said currency from circulation and replacing it with a new currency. Most of the people hailed the Modi's strong decision, while poor were shocked by the move. The overnight decision changed the life of many as black money holders were worried about the pile of cash they were sitting on. Many poor daily wage workers were left with no job and income as owners were unable to pay their daily wage. It is no doubt a bold step taken by the government which will definitely help India to become corruption-free. The Reserve Bank of India said in its annual report on Aug. 30 that 99 percent, or around 15.28 trillion rupees (\$238.7 billion), of the demonetized 500- and 1,000-rupee notes were deposited or exchanged for new currency. That figure suggests that most people including corrupt officials, businessmen and criminals said to have hoarded their illicit wealth in cash have managed to preserve their fortunes.











## Objectives of paper:

- To study the experience of impact of demonetization in various countries in past years;
- To analyze the current the immediate impact of demonetization on Indian economy;
- To work out the probable consequences of the demonetization.

## Research Methodology

The proposed study is concerned with Economic Survey's note tells us how we should estimate the impact of demonetisation on the economy from the GDP numbers. It says the Central Statistics Office's (CSO) first advance estimate of growth for 2016-17, which didn't take into account the impact of demonetisation, would be a good benchmark. It adds, An even better counterfactual for comparison would be the level of nominal rather than real GDP growth. After all, demonetisation is mostly a nominal demand shock, so its effect in the first instance will be on nominal magnitudes... Therefore, the most appropriate gauge of demonetisation would be to compare actual nominal GDP growth—or the Survey's estimate of it—with the counterfactual nominal GDP growth without demonetisation. According to the CSO, this counterfactual is 11.9%, while the Survey's estimate is around 11N (11.25) percent.

### INDIA: BEFORE DEMONETISATION IN INDIA, MONEY IS USED WITH TEN DIFFERENT VALUES AS LISTED BELOW:

1.	2.	3.	4.	5.
				
50 Paise Coin	1 Rupee Coin	2 Rupee Coin	5 Rupee Coin	10 Rupee Coin
6.	7.	8.	9.	10.
				
20 Rupee Currency	50 Rupee Currency	100 Rupee Currency	500 Rupee Currency	1000 Rupee Currency

This part of the research highlights the government's measures taken before the announcement of demonetisation. The decision was not taken in a day but two years before by Hon'ble PM. He suggested all

the citizens should have a bank account especially the people who are from non-creamy layer. He promoted it by permitting to open a new bank account with zero balance. Later, their Aadhaar Card Number was added. By doing so, it was estimated that people have to approach banks for transactions. In addition, he announced two insurance schemes for Rs.12/- month and a life insurance for two lakh with minimum amount of investment based of the age variances. This scheme also kindled all sort of people in India to open a bank account. Naturally, the number of people with bank accounts got increased. Then, the decision was taken to announce the demonetization of High Value Currency such as Rs.500/-and Rs.1000/- from 9<sup>th</sup> November, 2016 onwards which was approved by Reserve Bank of India. It was kept secretly and the new currency notes were started to print for six months.

### **Black Money tracking**

This move will help the government to track unaccounted black money or cash on which income tax has not been paid. Individuals who are sitting on a pile of cash usually do not deposit the amount in the bank or invest anywhere as they would be required to show income or submit PAN for any valid financial transactions. They would hide it somewhere and use it as and when necessary. Banning high-value currency will impact people who will have no option, but, to declare income and pay tax on the same or destroy the cash somehow. Now, it is not possible to hide the money as the notes have been declared invalid.

### **Reduction in illegal activity**

Banning high-value currency will halt illegal activity as the cash provided for such activities has no value now. Black money is usually used to fund the illegal activity, terrorism, and money laundering.

Fake currency circulation will come to a halt in a single shot. Corrupt officers, money launderers are under threat as Income tax department is taking all the measures to track such people.



## Tax payment

Most of the businessmen who have been hiding some income are ready to pay advance tax as current year's income. Tax payers who have been hiding some income can come forward to declare income and pay tax on the same.

Individuals are required to submit PAN for any deposit above Rs 50,000 in cash, which will help tax department to track individuals with high denominations. Also, deposit up to Rs 2.5 lakh will not come under Income tax scrutiny

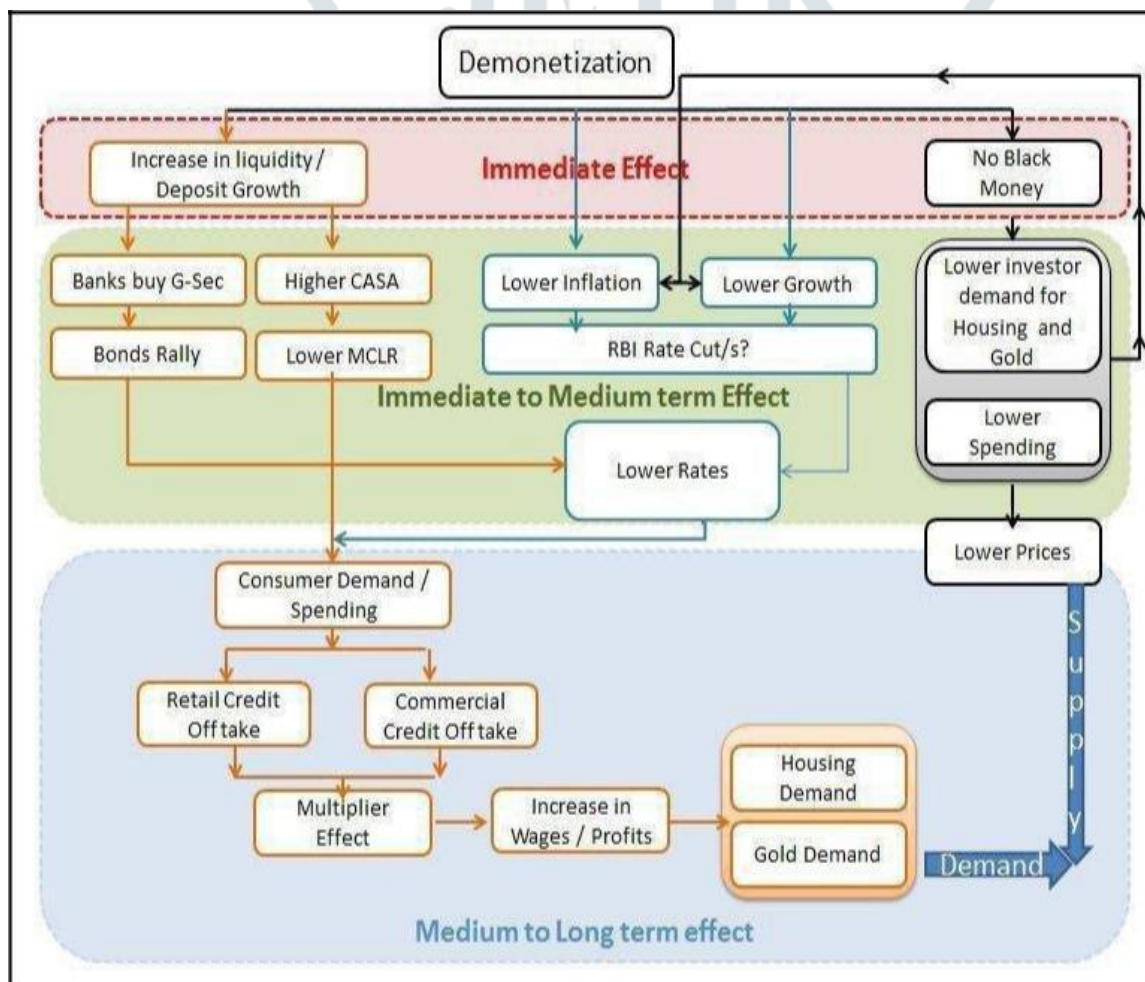
## Positive Effects Of Demonetization

In what could be termed as the mother of all reforms, Prime Minister Modi's demonetisation move will have far reaching implications. This is not to dispute that the transformative step has brought some hardship for the citizens, but those are temporary and will blow over soon. For the larger benefit of the nation, we the citizens can bear such hiccups with a smile. After all, this is how we as citizens can contribute in policy making and nation building. While bank employees are working overtime to make Modi's ambitious demonetisation drive a success, let's discuss its many-fold impacts.

1. **Black money:** At one stroke the Prime Minister has choked the supply of black money stacked inside the country. Of the Rs 17 lakh crore of total currency in circulation in the country, black money is estimated at mind-boggling Rs 3 lakh crore. Black money is nothing but a plunder of the nation. Black money operators run a parallel economy which shakes the very foundation of the Indian economy. With Modi's demonetisation move, all domestic black money will either be deposited into the banks with heavy penalty or be simply destroyed.
2. **Economy:** Demonetisation will have a huge resultant effect on the Indian economy. The clean-up of illegal cash will help turn around the economy. First, it will bring more borrowings to the exchequer, improve inflation outlook and increase India's gross domestic product (GDP). Second, it will revive investment opportunities and give a fillip to infrastructure and the manufacturing sector. Third, it will help reduce interest rates and lower income tax rate.
3. **Note bank politics:** In the run up to the crucial assembly elections in Uttar Pradesh, Punjab, Goa and Uttarakhand, Prime Minister Modi's demonetisation announcement has come as a shock and awe for the political parties and politicians for whom black money is a lifeline. The pulling out of the old Rs 500 and Rs 1,000 currency notes will help make the election process clean and transparent. But it has brought tough times for the political parties and politicians who believe in the idea of purchasing votes in exchange for notes. That is precisely the reason a rainbow coalition of a galaxy of regional parties and the Congress is building up against Modi, because their political interests are badly hurt.

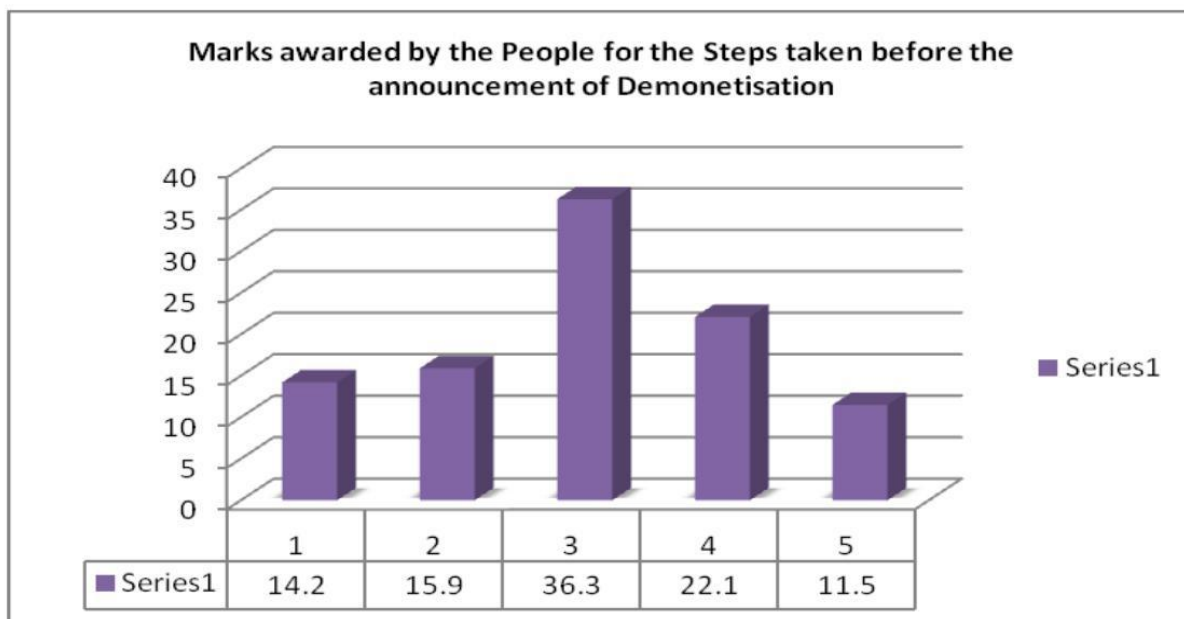
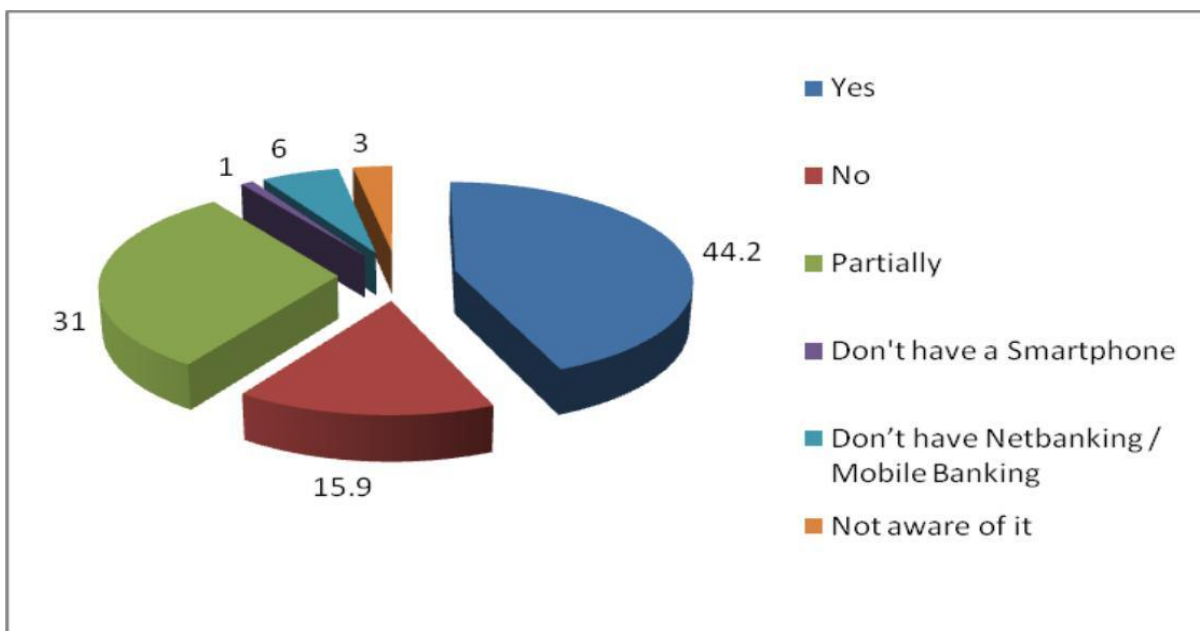
4. **Real estate cleansing:** It is said that real estate is an industry built on black money. The extent of black money floating around in the sector is huge. According to an estimate at least 40 per cent of real estate transactions in Delhi-NCR are in black. Modi's demonetisation move will curtail the flow of black money into the real estate sector. This will help in making the much needed correction in the sector. The impact: An unexpected dip in land and property prices.

5. **Hawala transactions:** Demonetisation has crippled the hawala rackets. Hawala is a method of transferring money without any actual money movement. Hawala route is used as a means to facilitate money laundering and terror financing. Hawala rackets run again on black money. With black money suddenly being wiped out of the market, thanks to demonetisation, hawala operations have come to a grinding halt. According to an India Today report, one of the hawala operators in Mumbai has destroyed currency notes worth about Rs 500 crores.

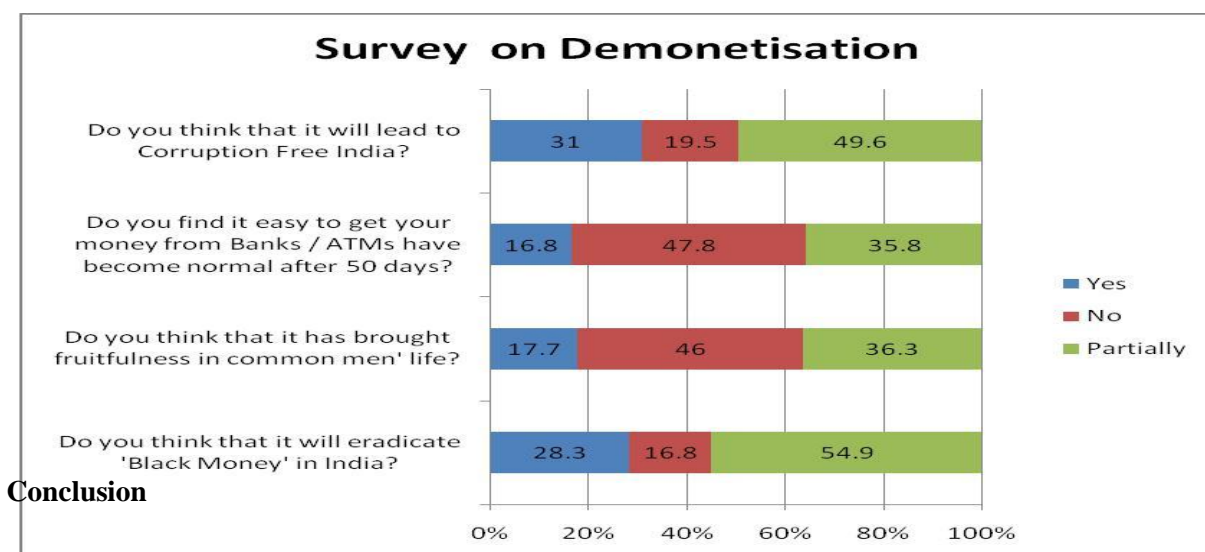


**SURVEY REPORT ON DEMONETISATION:**

Our survey on ‘\_Demonetisation’ which was answered by 113 people from various statuses like students, private sectors, government sectors, academicians and entrepreneurs. It reports, ‘\_Demonetisation is welcomed by 82.3 percent of the people, whereas opposed by 17.7 percent. Among them, 80.3 percent agree that it is necessary, meanwhile, 19.5 percent stand against its relevance in India. It also evidences that 53.1 percent of the people have managed ‘\_difficultly’, whereas 23percent nd 23.9 percent have managed it ‘\_very difficulty’ and ‘\_easily’ respectively. It also witnesses that the familiarity of people with Digital Transactions to promote ‘\_Digital India’ Movement as below:



The above bar diagram interprets that well organized remedial steps might have been taken before the announcement or implementation of 'Demonetisation' in India to prevent the unfortunate deaths of common people who were in queue for collecting or exchanging their own money from Banks / ATMs.



### Conclusion

There are only advantages of demonetization in the long term. The government is taking all the necessary steps and actions to meet the currency demand and ensure the smooth flow of new currency. New notes now in circulation. We now have new notes in circulation with denomination of Rs 2,000 for the very first time. There are also new Rs 500 notes in circulation, which are very thin and have great security features. So, now there is whole lot of new currency that is in circulation. There are also plans to include new currency in other smaller denominations, especially Rs 100. In any case, nobody seems to be unduly worried now that the entire demonetization episode and the time frame to exchange the old notes now stands completed. The government had announced demonetization of Rs 1000 and Rs 500 note on November 8, 2016. A demonetization is a tool useful for eradication of black money. After demonetization of Rs 1000 and Rs 500, the government introduced new Rs 500 but not Rs 1000. Instead of Rs 1000, the new Rs 2000 introduced not only these the RBI printed new Rs 200 notes. Many now argue that the process of demonetization had little impact on black money, given that 99 per cent of the notes were surrendered back to the bank. The cash ban had forced the RBI to print new notes and in new denominations.

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