



# DEMONETIZATION CONSEQUENCES IN INDIAN ECONOMY WITH REFERENCE TO MIDDLE CLASS FAMILIES

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## Abstract

Demonetization is not new to the Indian economy. According to RBI data “The highest denomination note ever printed by the Reserve Bank of India was the Rs 10,000 note in 1938 and again in 1954. But these notes were demonetized in January 1946 and again in January 1978”. Pavan Kumar Vijay stated that when the whole world was waiting for the outcome of US presidential elections, Prime Minister Narendra Modi came out with his master stroke on corruption, counterfeit currency, terrorism and black money by announcing demonetization and ceasing Rs 500 and Rs. 1000 notes as a part of legal tender in India. Demonetization can be assumed as a “Surgical Strike” on unaccounted Money, Terrorism, Fake currency, Unorganised trading, Real Estate, Share market. On the other hand Demonetization is a device to encounter the inflation, Corruption and Crime, depress a cash dependent economy and to assist the trade. The lack of liquidity has caused serious economic difficulties. After months of demonetization, cash was still scarce in many places. After the process of demonetization only the Primary sector shows some encouraging development and if we are talking about the Secondary and Tertiary sector both were smashed down and will affect the whole Indian market.

**Keywords:** Income Group, Demonetization, Indian economy

## Introduction

Demonetization is not new to the Indian economy. According to RBI data “The highest denomination note ever printed by the Reserve Bank of India was the Rs 10,000 note in 1938 and again in 1954. But these notes were demonetized in January 1946 and again in January 1978”. Pavan Kumar Vijay stated that when the whole world was waiting for the outcome of US presidential elections, Prime Minister Narendra Modi came out with his master stroke on corruption, counterfeit currency, terrorism and black money by announcing demonetisation and ceasing Rs 500 and Rs. 1000 notes as a part of legal tender in India. The Reserve Bank of India manages currency in India and derives its role in currency management on the basis of the Reserve Bank of India Act, 1934 and a new redesigned series of Rs 500 banknote, in addition to a new denomination of Rs 2000 banknote is in circulation since November 10, 2016. The new redesigned series is also expected to be introduced to the banknote denominations of Rs 1000, Rs 100 and Rs 50 in the coming months. Demonetisation did not have a big impact on the country. The decision was taken to curb the illegal use of high denomination currency which was used for corrupt deals in the country. However, with the latest round of demonetisation, the common public and bankers are undoubtedly facing hardship since more than 85 percent of currency in circulation has been rendered illegal in one single stroke. Demonetisation is surely hampering the current economy and will continue

to do so in the near term and will also impact India's growth for the coming two quarters but will have positive long lasting effects.

Shreya Kapoor stated that Demonetization is not a big disaster like global banking sector crisis of 2007; but at the same time, it will act as a liquidity shock that disturbs economic activities. Currency crunch will be in our economy for the next four months. There will be a trickle up effect of the liquidity chaos to the higher income people with time. It reduces GDP growth as the liquidity impact itself may last three -four months. Demonetization may reduce interest rate in the short/medium term. But they can't follow it in the long term. The real impact will be on counterfeit/fake currency as its circulation will be checked after this exercise.

Demonetization as a cleaning exercise may produce several good things in the economy. At the same time, it creates unavoidable income and welfare losses to the poor sections of the society who gets income based on their daily work and those who doesn't have the digital transaction culture. Overall economic activities will be dampened in the short term. But the unmeasurable benefits of having more transparency and reduced volume of black money activities can be pointed as long term benefits.

### Objectives of this research

- To know the history of Demonetisation
- To know the reason of Demonetisation
- To find the impact of demonetization on Indian economy
- To research how demonetization affects Black Money.

### Reason of Demonetization

There was a parallel economy in the nation as a result of the undeclared money. These illicit funds entered the bank accounts either directly or indirectly.

- Demonetisation was a daring and groundbreaking move by the Indian government to combat black money, and it will have a significant effect on the nation's black market economy. This action may be used to identify pockets and people who have black money. A small number of companies, such as real estate brokers, jewelers, foreign exchange dealers, and private money lenders, frequently own substantial sums of unreported funds in the form of currency notes.
- If the currency spirals out of control due to issues like hyperinflation, governments may choose to implement demonetization.
- Demonetization can also be used to prevent illegal activities including tax evasion, terrorism, and counterfeiting.
- A new monetary standard is implemented by demonetization. For example, in 2002 the European Union adopted the Euro, a central currency that would eventually replace the prevailing monetary standards of a few countries.

### Impact of Demonetization

As just 10.8% of the money in circulation is in 2000 rupee notes, the RBI governor predicted that the removal would have a "very very marginal" effect on the economy. Promoting the cashless/digital economy was the slogan of the demonetization movement. Growing numbers of cashless or low-cash transactions will result in more income transparency, which will raise the amount of direct taxes collected. Alternative payment methods will become increasingly popular as cash transactions decline. Demand for electronic payment methods such as online shopping, app payments, e-wallets, e-banking, and credit and debit card use will undoubtedly rise significantly (Kushwaha et al., 2018).

### Positive Impact

- The corrupt practices will be significantly impacted. Individuals who own black money in cash will be unable to swap much because they fear punishment from the government.

- It will be impossible for those engaged in terrorism and counterfeit money to carry on for at least a long while. Since all of the money will now be on file, the smuggling of weapons and transactions with terrorists will not continue.
- Raising tax revenue will support national development initiatives like developing roads, infrastructure, transit, and many other projects.
- Demonetization undoubtedly helped e-wallets and digital transactions, as seen by the sharp rise in the use of Paytm, Mobiquik, Bhim app, and Aadhar-enabled gadgets. Point of sale (PoS) machine count skyrocketed to 1.6 million in 20 years, with a 62% growth in the six months from October 2016 to April 2017.
- A considerable rise in the number of people and companies joining the official economy was caused by demonetization. This led to an increase in the tax base, which decreased tax evasion and increased transparency.
- Cash flow into financial markets was significantly aided by demonetization. It strengthened the saving habit. The percentage of gross financial savings rose by 90 basis points (bps) from 10.9% of gross national disposable income (GNDI) in FY16 to 11.8% of GNDI in FY17. People's saving habits were altered by it. Those who used to keep cash on hand or in banks are increasingly investing in insurance firms and mutual funds.

### Negative Impact

- There was an instant impact on cash market transactions related to commodities. The government's note exchange and cash withdrawal policies are anticipated to have an impact on households, which is why the current liquidity situation is disrupted.
- Due to a lack of liquid funds, a number of societal segments experienced short-term disruptions, including the agricultural industry, small dealers, homes, and daily wage earners.
- There will be additional expenses for replacing the money. The heightened expenses associated with running ATMs necessitate frequent refilling, which will place a significant pressure on banks. Furthermore, the government must bear the costs associated with demonetizing old currency units and printing new ones; if these expenses outweigh the advantages, demonetization is pointless.
- The lack of cash has a negative impact on Indians' spending habits. Short-term sales of consumer durables are expected to be hindered, particularly if cash transactions through unorganized channels are made.

### Effect of Demonetization on Black Money

The three primary economic goals of demonetisation were to combat black money, counterfeit notes, and to promote digital transactions in order to establish a cashless economy. The largest of their goals was to combat black money. Cash that is unaccounted for in the financial system or for which the state has not received tax payment is referred to as "black money."

Demonetization was an attempt to reduce the amount of black money entering the nation. However, it was unable to entirely eradicate black money from the economy since the majority of those with substantial amounts of black money or large earnings from illicit operations either swapped or deposited their old 500 and 1000 rupee notes in banks within the allotted period (Jyoti Sarkar & Moumita Karmakar).

### Advantages of Demonetisation

1. A major advantage is that demonetisation helped the government track black money. Large sums of black money was kept hidden by tax evaders. Demonetisation helped government uncover huge amount of unaccounted cash. According to estimates made by RBI, people have deposited more than rupees 3 lakh crores worth of black money in the bank accounts. This has helped the government in lowering down the plague of parallel economy.

2. A major reason behind demonetisation was that a big part of black money was being used for funding terrorism, gambling, in inflating the price of major assets classes like real estate, gold and other social evils. Demonetisation is acting as an effective countermeasure against such activities. Now all such activities will get reduced for some time and also it will take years for people to generate that amount of black money again and hence in a way it helps in putting an end this circle of people doing illegal activities to earn black money and using that black money to do more illegal activities.
3. Another benefit is that due to people disclosing their income by depositing money in their bank accounts government gets a good amount of tax revenue which can be used by the government towards the betterment of society by providing good infrastructure, hospitals, educational institutions, roads and many facilities for poor and needy sections of society.

### **Disadvantages of Demonetisation**

1. The biggest disadvantage of demonetisation has been the chaos and frenzy it created among common people initially. Everyone was rushing to get rid of demonetised notes while inadequate supply of new notes affected the day to day budgets of citizens. Banks and ATMs witnessed long queues while small businesses suffered temporary financial losses. The situation was even worse in rural India where people struggled to exchange and withdraw cash due to lack of enough number of banks and ATMs in their vicinity.
2. Another disadvantage is that destruction of old currency units and printing of new currency units involve costs which has to be borne by the government and if the costs are higher than benefits then there is no use of demonetisation.
3. Another problem is that this move was targeted towards black money but many people who had not kept cash as their black money and rotated or used that money in other asset classes like real estate, gold and so on were not affected by demonetisation.

### **Research Methodology**

The research is descriptive and analytical in nature, descriptive research include survey, fact/findings, and enquiries of different kinds. Research methodology is a to solve the research problem. It may be understood as science of studying how research problem is done scientifically. The procedure using, which researchers go about their work of describing, explaining and predicting phenomena is called Methodology.

### **Sampling Design**

The population will be different people belongs to middle and lower income group.

### **Sample Plan**

It is the process of selecting the units from a population of interest so that by studying the sample we may fairly generalized our result back to the population from which they were chosen. Hence the sample has been selected from the general public belonging to low and middle income group.

### **Sampling Technique**

The selection of employees will be based on random basis applying simple random sampling technique. Choosing a study is an important step in any research project since it is rarely efficient, practical, or ethical to study whole populations.

### **Tools for Data Collection**

The data collection methods in this particular research comprises of two forms: namely primary data and secondary data.

### **Primary Data**

The data consisted of information collected with the help of personnel interaction and questionnaire with different income group people. Observation methods was used for understanding the awareness level if impact of

demonetization. The questionnaire consists of quantitative and qualitative multiple choice questions and the respondents are asked to choose the one choice which suits them the best amongst the multiple choices. The various way of gathering primary data is through surveys, focus group and observation.

### Secondary Data

Data was collected from already published and available data on intermate, research articles, related journals, different books on monetary system etc. The Data that is collected from exiting journals, reports and statistics from private and public institutions are called Secondary data.

### Period of the Study

The study was conducted for the period of 3 months

### Plan of Analysis

The information obtained from other sources were processed, tabulated, interpretation and analysed in the form tables, charts. It is likely analysis of data will be more an analytical and descriptive in nature of the study.

### Findings

- It is found that the demonetization has impacted completely for 22% of respondents, partially for 74% of respondents and 4% had no impact of demonetization.
- It is found that 94% of respondents agree that black money still exist in India whereas only 6% of respondents says black money do not exist in India.
- It is found that 8% of respondents say demonetization has helped in curbing blank money, corruption and terrorism and 22% says no to it whereas the rest 70% of respondents says yes but believes that it needed better planning.
- It is found that 22% of respondents says the rich people affected the most by the demonetization, 50% of respondents says the middle class and remaining 28% says It's the poor people who has been affected the most because of demonetization.
- It is found that the 62% of the respondents are against the decision to issue the new Rs2000 notes and only 38% are respondents are in favour of issuing Rs 2000 notes.
- It is found that the 48% of respondents say demonetization will not bring an end to blank money, corruption, terrorism and counterfeiting of currency. 20% of respondents says it will bring an end to blank money, 18% says it will end corruption, 10% says it will end terrorism and 4% says it will end counterfeiting of currency
- It is found that 40% of the respondents are not sure that whether demonetization leads to the loss of employment, 34% says it leads to loss of employment and remaining 26% says no to it.
- It is found that 56% respondents partially agrees that demonetization was a political move hust to effect other political parties in funding of UP elections, 36% respondents says it was completely political move and remaining 8% disagree to the statement.
- It is found that 72% of respondents are married and rest 28% of respondents is unmarried.
- It is found that 34% disagree that government was successful in eliminating black money from the country. 18% of respondents strongly disagree, 6% of respondents strongly agree, 26% are respondents neutral and rest 16% agree to the statement.

### Conclusion

The nation was not expecting the government to demonetize the old currency and replace it with the new one. In an attempt to combat the threat of illicit money, corruption, financing of terrorism, and counterfeit cash, the action was taken. In the annals of Indian economic history, the decision to demonetize the old currency was viewed as a surgical blow against undeclared wealth, perhaps signalling the advent of a cashless economy. The nation had a significant cash shortage in banks and ATMs following the demonetisation, which had a negative

impact on small businesses, agriculture, and transportation. Demonetization made a partial effort to lessen illicit riches, corruption, terrorism, and counterfeit money. It has positive as well as negative impact. Positive impacts are raising tax revenue, reduce black money terrorism. It helped in cashless transactions, increasing investment. It affected economy negatively such as lack of short term fund, additional expenses of replacing money. It promoted financial inclusion, decreased the amount of cash in circulation, and restrained the use of black money and illegal activity. The move to digital transactions sped up digitalization in both urban and rural regions and encouraged innovation and better financial literacy.

As one can see from the above that demonetisation has both advantages and disadvantages. Demonetisation alone cannot fight parallel economy and eliminate black money. Several other measures are required by the government to change the economy for good. We should respect and support this move and wait with the patience for better execution. Every Indian including common man should be responsible for part nation building. And our temporary inconvenience is negligible as related with the outcome in future. We should encourage and join together for the mission of India development.

The higher currency notes are thought to be corruption friendly and make it easier to hold blank money. It also increase the risk of entry of fake notes into market as the new notes do not possess any additional security feature. However, this step has to be taken in order to eliminate many illegal activities that were taking place in the country and in the with more than 125 crore population the outcome could be nothing else than this.

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