



IMPACT OF DEMONETIZATION ON INDIAN ECONOMY

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ABSTRACT

This paper examines the impact of demonetization on Indian economy. Demonetization refers to cancellation of a particular currency from circulation and retired. The currency will not be considered as a valid currency. Or it can be said a change of paper currency where new units of paper currency replace the old one. In India, the currency was demonetized for the first time on 12th January 1946(Saturday) and second time on 16th January 1978 (Monday) and on November 8th 2016 (Tuesday) the demonetization was announced for the third time by the honorable prime minister Narendra Modi where Rs 500 and Rs1000 notes were withdrawn from circulation. This move was taken to cleanse the economic system and end black money from the economy. This paper attempts to explain what is demonetization and its impact on different sectors of economy. And will try to analyze the positives and negatives of demonetization after 5 years of its implementation.

KEYWORDS: Currency, Demonetization, Black money, Indian Economy.

INTRODUCTION:

Money is important for working of any economy with the growth of humankind the needs are increased because of which presence of corruption, black money, counterfeit currency establishes. Demonetization is one of the tools to tackle these issues. The dictionary meaning demonetize is to withdraw from use as a currency or not to consider it as a monetary standard. So, it is a way to stripping a currency of its status as legal tender. This form of replacement occurs with new notes or coins.

1.1. Overview of Study:

The honorable prime minister of India Mr. Narendra Modi announced demonetization in India on 8th November 2016 where Rs. 500 and Rs. 1000 notes were withdrawn from the economy. This measure was taken by the government of India as an attempt to resolve against corruption and black money. It was done as to discard black money from the economy and to stabilize the currency and fight inflation, facilitate trade and access to market.

1.2. Background of Study:

India has experienced demonetization twice before. On 12th January 1946, Rs.1000 Rs. 5000 and Rs. 10000 notes were withdrawn from the circulation. All the Rs. 5000, Rs.1000 and Rs. 10000 notes were again reintroduced in 1954. On 16th January 1978, the currency was demonetized for the 2nd time where Rs. 1000, Rs. 5000, Rs. 10000 notes were again demonetized the move was called the death blow to Black marketers.

1.3. Significance of Topic:

Demonetization has been used as a tool to stable the currency and fight inflation and facilitate trade. It is used to stop the financing of illegal activities like fake currency printing out of India and push informal activities into more transparency and to combat corruption.

2. LITERATURE REVIEW:

ABHANI (2017)- found that the demonetization of 2016 was found to be more successful than the past two demonetization done by the government of India. His findings were that people use of online mode of payment has increased. He concluded that demonetization could not end the entire black money but it created fear in minds of people with black money.

VEERAKUMAR (2017)-Concluded that demonetization came as a shock to the people of India.

He also concluded that the demonetization was done to solve the problem of tax evasion, counterfeit currency and to stop the financing of terror activities.

SHALINI M AND VIDHYASHREE S (2018)-Titled 'Impact of demonetization in Indian economy' took sample size of 100 respondents from Bengaluru and concluded that people of India felt that demonetization will improve that quality of work life and did not mind the inconvenience. Though people accepted digital banking but most of the people in the country are illiterate or are senior citizen who cannot use digital banking or are scared due to hacking. Therefore, both cash and digital transaction goes simultaneously.

HIMANSHU KUSHAWAHA, ASHWINI KUMAR, ZAINAB ABBAS (2018)-

In their paper named.

'Impact of demonetization on Indian economy'. This critical study showed the effect of demonetization sector wise and concluded that demonetization would bring a positive impact on Indian economy as it encourages use of digital wallets and Apps. Demonetization will be beneficial to economy in medium to long term.

PRIYANKA SHARMA (2018)- Titled as Demonetization: Its impact of demonetization in India. She concluded that note ban in India has shown a good result to reduce black money and eradication of corruption and suggested that government should take all the necessary measures to minimize the hardships being faced by the public.

3. OBJECTIVE OF THE STUDY:

- To understand meaning of demonetization.
- To study the sector-wise impact of demonetization.
- To analyze 5 years of demonetization and its positive and negative impacts.

4. RESEARCH METHODOLOGY:

This present paper is based on descriptive research and exploratory research. Description has been made regarding the meaning and reason of demonetization in India. It is exploratory in sense that how demonetization has impacted the Indian economy sector-wise and analyze 5 years of demonetization and its positive and negative impacts. This study is based on secondary data and sources include newspaper, journals, and websites etc.

Impact on Different Sectors of Indian Economy:

Jobs: According to the unemployment survey of labor bureau's sixth annual employment. The unemployment rate increased to a four year high in 2016-2017. When the currency got demonetized. In 2017-2018 the India's unemployment rate stood at 45 years high of 6.1%.

According to the national sample survey office (NSSO'S).

Moreover, it caused two to three percentage point reduction in jobs and economic activity in November and December 2016. Between 2016 & 2018 five million people (about twice the population of Mississippi) lost their jobs and the labor force participation rate declined between September and December 2016 both for urban and rural men. But the general trend had continued and there had been zero recovery.

Income Tax Payers: Eight point eight million tax payers did not file tax returns in the fiscal year 2016-2017 the government of India demonetized currency notes. There was some positive impact of demonetization on the widening of tax base. The income tax department said it added one point zero seven crore new tax payers while the number of dropped came to twenty-five point two three lakh. The income tax returns increased by twenty five percent in 2017-2018.

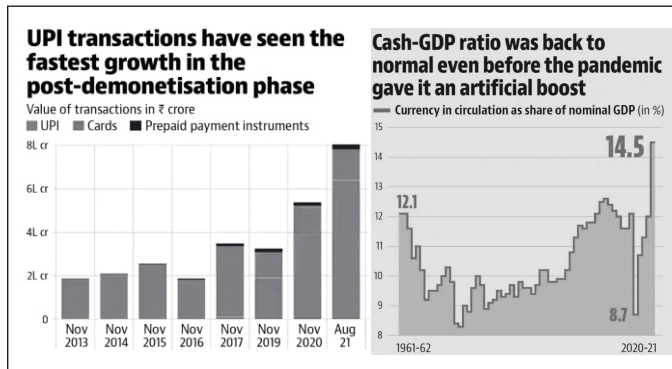
Farm Income and Wages: Farmers incomers from crop cultivation as well as wages of laborer's contracted. On a bright side in agriculture output from fishing

and livestock grew the fastest in 2016-2017. The growth was almost 10% over the previous year. Agriculture had grown the fastest since 2012 in the year of demonetization.

Real Estate: After demonetization the number of real estate developers got reduced by fifty percent by 2017- 2018. A vast number of real estate developers left the market after demonetization. All main cities with immense potential for real estate also saw a reduction in number of real estate developers.

Hospitality and Tourism: Because demonetization Indian tourism industry was severely impacted as most spending is in cash. A substantial number of the expensive foreign trips are sponsored by black money has come to a halt. Because of cash crunch, local tourism also got affected.

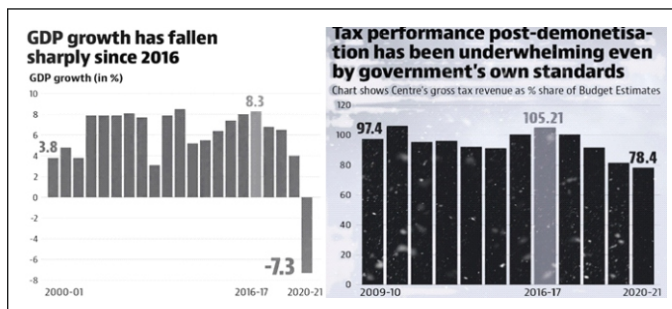
5 YEARS OF DEMONETIZATION: POSITIVES AND NEGATIVES



POSITIVES:

On 8 November 2016 PM Modi withdrawn the circulation of currency notes Rupees 500 and Rupees 1000 Which were 86% of currency in circulation at that time. RBI data showed that the cash in circulation Reached an all-time high on October 8th of 28.3 trillion, which proves cash is still the king. The currency in circulation has been growing in line with nominal GDP of growth. As a percentage of GDP cash in circulation has jumped from 8.7% in fiscal year 2017 to 14.7% in fiscal year 2021. At the same time, the number of transactions done through (UPI) has also risen since demonetization from 0.29 million in 2016 to 4.2 billion now. RBI data showed that the share of high value currency notes like of Rupees 500 and Rupees 2000 has also increased to 33.1% by the end of year 2021 from 9.2% in fiscal year 2017.

COVID-19 hit the country ground in February. On March 2020, PM Modi announced lockdown in the country from March 25th. The cashless economy, which was encouraged by the Government of India during demonetization for inspecting black money and corruption proved to be an opportunity for the survival of people during the lockdown. People ordered essentials at home with the help of online banking through unified payment interface. Post lockdown government started unlocking activities from June 2020. The country switched to highest point of cashless economy. So, the digital mode of payment came in as a relief for people.



NEGATIVES:

Most of the transactions took place by cash and only a few had a bank account, government banned notes, which had 86% share in the market, which led to a great challenge in the market. It affected the middleclass taxpayers severely. It severely affected the farmers and villagers who did not have a bank account and only had rupees 500 and rupees 1000 notes after sale of their crops, small businesses faced major loss and there was poor coordination between banks and government.

Demonetization has some positive and some negative impacts. But negative impact does not outweigh the positive impact. It was an effort to stop the threat of illegal money, corruption, terror funding and counterfeit currency. People of India felt that demonetization will improve the quality of life and they did not mind the inconvenience caused to them because of limited cash, demonetization has a strong impact on cashless transactions in India and it brought a new phase how the transactions are done in an economy which is cash based. The benefits of

this policy were visible in long run it can be said it was an historical step supported by all. It encouraged the digital mode of payment like E-wallets and Apps and online transaction using E- banking So, it was beneficial for the economy.

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