

A STUDY ON DEMONETIZATION AFFECTATION ON THE INDIAN ECONOMY

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ABSTRACT

The decision to demonetize currency was announced by our Prime Minister, Shri Narendra Modi, on November 8th, 2016. Approximately Rs. 14 lakh crore (\$190 billion) or 87% of this currency is in the shape of Rs. 500 and Rs. 1,000 notes. There have been numerous effects of the Indian demonetisation on the economy, some of which are expected to be favourable while others are expected to be very adverse.

The household's financial reserves are generated largely through corrupt or illegal business transactions that are not reported to tax authorities. Demonetization's sudden announcement has left people feeling uneasy and afraid.

People lined up outside ATMs across the nation to withdraw smaller denominations of currency, and there were massive line-ups there. Newspapers and news outlets projected both the negative effects of demonetization and its positive effects. Therefore, the purpose of this research study is to investigate the actual situation and the effects of demonetisation on the various Indian economic sectors.

KEYWORDS: *Demonetization, Cashless Transaction, Digital Economy, Indian Economy*

CHAPTER: 1 INTRODUCTION

Demonetization is an act taken by the government in to denuding Currency status as legal tender. It occurs when the government adjudicates change of National currency. The current form of currency notes or coins ceases to recognize as a legal tender of the country. Often Remonetize where a form of payment method replaces the old currency with new currency. Where a payment method swaps out the old currency for the new. In contrast to demonetization, which results in the restoration of legal status, remonetisation does not. Nations demonetize their currencies for a variety of reasons, including to fight inflation, deter crime and corruption, promote digital payment methods, ease trade, and more.

Background

One can find numerous examples of demonetization throughout world history, all of which took place in different nations. The Coinage Act of 1873, which demonetized silver as legal tender, was the beginning of demonetization in the United States. Silver was later remonetised as legal tender in 1878 as a result of pressure from farmers, silver miners, and refiners. Through the demonetization process, numerous nations, including Britain, Ghana, Nigeria, Myanmar, Congo, North Korea, and Russia, along with the United States, stop accepting their current currencies as legal money. India is one of many of these nations that adopted the demonetization programme, which was intended to strengthen the nation's weak economy.

PROCESS OF DEMONETIZATION

An economic phrase known as "demonetization" is used to describe the "scrapping" of outdated currency notes and reducing their status as legal tender. This definition is composed of two fundamental components. Two examples are the "location of legal tender" and the "scrapping of outdated currency notes." Before explaining the same, it is important to remember that a currency note or piece of paper money is essentially a legal document or promissory note that only indicates that the payee has "promised" to pay the client that sum of money. Each currency note also features a comparable note. This is verified by the head of the nation's central banks, and in the case of India, the Reserve Bank of India's Governor is the signing authority. This "status" of legal tender can be revoked for a currency note, demonstrating that the currency note is no longer considered to be a "legal" medium of exchange and consequently loses the value attached to that instrument. In other words, they are nothing more than scraps of paper until and unless the old currency is lawfully exchanged at the approved facilities.

REASONS OF DEMONETIZING

- A fictitious increase in the price of goods and services has resulted from the widespread use of hard currency in large denominations.
- A structural change strategy that urges against dark money can change things in the short term and result in political advantages.
- A move toward a cashless society with a stronger emphasis on electronic transactions is anticipated.
- The abolition of large fees will make many unlawful and criminal acts more expensive, including tax evasion, drug use, human trafficking, extortion, and terrorism.
- Although reducing larger denominations won't end the crime, it will make the rebel economy rely on riskier and less liquid payment methods.
- Election fraud, such as the distribution of black money through numerous sources as part of the campaign to ensure the victory of specific political parties' candidates
- Other illegal activities that hurt society in some way, including as drug trafficking, terrorism, Maoist operations, and others, are also to blame for the start of the demonetization process.

Move by Reserve Bank of India

According to the Reserve Bank of India, the strategy to withdraw these currency notes was implemented to curb the spread of phoney Indian currency notes, which is still a danger. The new currency notes have been used in the market in order to keep India's cash-based economy intact.

The government also ensures long-term growth, security for India's future, and promotion of the India brand. A 200-rupee currency note was also released into circulation at the same time to help with the market's liquidity problems. Furthermore, according to RBI, not all transactions involving money are legitimate. The ruling had various repercussions for the average middle-class individual, farmers, banks, and the economy as a whole, with black money holders being the most affected. The inconveniences to the average person were only brought on by how quickly these currency notes could be exchanged and deposited at banks and post offices.

In order to carry out the government's decision while minimising the annoyance to the populace, the Reserve Bank of India released a number of operational recommendations.

Old high-denomination bank notes can only be exchanged for a total of \$4,000 in banks and post offices, according to the RBI. On December 30, 2016, the exchange process was intended to come to an end. Additionally, the government granted an exemption to government hospitals, railway and airline ticket counters, state-recognized dairies, ration stores, and crematoriums, which were required to take 500 and 1000-dollar bills until November 24, 2016. Although the rules have constantly changed in response to the nation's shifting conditions. In the long run, the prime minister's choice to forgo a toll fee to keep the economy on course is commendable; it greatly benefited the road transportation system.

OBJECTIVES AND SCOPE

Objectives

- To comprehend the significance of demonetisation.
- To ascertain the scope of demonetisation.
- To investigate the causes of India's demonetisation.
- To research the effects of demonetisation on the Indian economy, both positive and bad.
- In order to offer advice.

Scope

The study's focus is solely on the demonetization of currency in India as of November 8, 2016, and subsequent dates.

CHAPTER: 2 RESEARCH QUESTIONS

- Was stamping out fake notes the goal or bringing out dark money?
- Is the goal to simply destroy black money held in cash, or is it to collect tax income from it?
- Why was there an increase in supply of high-value denominations just before the announcement?
- Did the government consider the sudden decline in a number of industries?
- Is the government attempting to transition to a cashless society?

CHAPTER: 3 LITERATURE REVIEW

In his study article on "exploring the impacts of demonetisation in India," Sasyak Pattnaik (29 November 2016) elaborated on the many effects that the act of 2016 had on the nation's economy. Sasyak Pattnaik had properly explained the history of demonetization and its facts, as well as how it affected the nation.

Veerakumar, K. (2017) asserts that the announcement by the government of the demonetization of the 500 and 1000 rupee notes is a major shock to the Indian populace. To combat the issues of tax evasion, fake currency, and financing of terrorism, the highest denominations of currency are taken from circulation. It has been demonstrated that large sums of money are being placed into bank accounts that exceed the allotted amounts and are therefore susceptible to fines and taxes. Debit and credit card usage has significantly increased, which will lead to greater cashless infrastructure.

The study by Lokesh Uke (2017), Demonetisation and its impacts in India, examined both the advantages and disadvantages of demonetization in India and was based on secondary data. Eliminating black money and reducing corruption is the primary goal of demonetization. He said that the Indian government had achieved some measure of success. For a brief period, demonetisation had a detrimental effect on the Indian financial markets. But he made the point that the true impact won't be apparent for some time.

The initiative by the union government of India to demonetize the Rs. 500 and Rs. 1000 currency tenders during the year of 2016 was a noble and historic endeavour to eradicate the decades-long corruption and black money, according to Varshith J.R. (2016) in his study.

CHAPTER: 4 METHODOLOGY

On descriptive and exploratory research, the current study is built. It is descriptive in that the significance of demonetization in India and its numerous causes have been adequately described. In that both good and negative effects of demonetization on the Indian economy have been discovered, this article is exploratory. The current study is supported by secondary data, which was obtained from a variety of secondary sources, including books, newspapers, magazines, journals, websites, etc.

CHAPTER: 5 RESULTS AND DISCUSSIONS

- Demonetization will cause people to deposit their cash in banks rather than at home, which will increase savings. They can save more money as a result.
- Lower interest rates on loans - When currency is demonetized, money shifts from individuals to banks and other financial organisations. As a result, there is better money circulation. Because of this, the cost of money will be lower, which will result in lower interest rates on loans.
- Greater circulation of money in the economy results from the increased amount of cash held by banks. Tax revenue increases, allowing the government to fund new construction initiatives. A better-performing economy results from this.
- Stopping antisocial behaviour - Antisocial behaviour typically involves cash transactions. Demonetization thereby stops these operations. Additionally, it makes antisocial groups think of creative ways to get rid of the old notes. As a result, the economy's unaccounted for funds are better under control.
- Reducing the use of counterfeit currency - Before accepting old notes, banks determine whether they are real or fake. This enables the government to remove fake currency from the market.

CHAPTER: 6 CONCLUSIONS

The government's initiatives are anticipated to make it very difficult for corrupt and lawbreakers to engage in tax evasion, financial crime, and money laundering. After the suggested modifications to the laws and system are put into place, the success of this "war against corruption" could be scaled back in the future. On the other side, tax evaders use legal loopholes to avoid paying taxes. This was insufficient. The majority of us have been impacted by the demonetization. The unorganised economy has taken a lot of hits.

But because India is transitioning to a cashless economy, huge industries have benefited from this change. Political pressure left gaps in the policy's implementation that could have been filled by better organisation.

The framework should be set up to manage the income from commercial and industrial sectors as India's economy transitions to a paperless economy known as "Digital India." This aids in recording accurate estimations of financial transactions. Demonetization will also result in increased accounting tax compliance, reduced corruption, lower inflation, the discovery of counterfeit money, and very probable sustainable growth in the near future.

CHAPTER: 7 LIMITATIONS

- A Serious Cut in the Monetary Base of the Country: The Monetary Base declined from Rs 22.5 Trillion to Rs 13.7 Trillion, which Caused a Deep Hurt to Economic Sentiment in the Domestic Economy. The idea of banning nearly 86% of the currency in circulation led to a serious cut in the Monetary Base of the Country. Economic sentiment drives economic activity, thus when economic sentiment is damaged, economic activity must follow. As a result, all aspects of economic activity (production, consumption, investment, and exchange) experienced a significant uptick after demonetisation. There was a slowdown in the economy because producers intended to create less, consumers planned to spend less, investors planned to invest less, and exchange began to contract.
- Due to the fact that labour compensation is typically made in cash, forthcoming orders as well as ongoing projects in the water, roads, railways, and distribution and transmission sectors will also be hindered.
- Dent in GDP growth: Significantly reduced economic mood and widespread layoffs suggested a severe slowdown in GDP growth. The majority of assessments, including one by Prof. Manmohan Singh, the nation's former prime minister, claim that demonetization caused the GDP growth of the nation to fall by almost 2%.
- Real estate Slump: The economy's real estate industry has been negatively impacted by the demonetization process. One of the main contributors to India's GDP has been this industry. Without a doubt, demonetization has rid this industry of transactions using dirty money. However, at the same time, sales and purchases in this industry have reached a breaking point. Inventory has accumulated while construction activity has been severely impacted. There are no longer any employment opportunities. The prospect of this industry's resurrection is rather dim and faraway. The real estate sector's stagnation will undoubtedly be a significant roadblock to the Indian economy's overall expansion.
- Even online merchants may experience pressure in the short- to medium-term. Cash on delivery accounts for anywhere between 70 and 90% of the revenues generated by online retailers, and as a result, it can affect how much retail online retailers are valued.

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