

Demonetization and Its Impact on Indian Economy

Anand John Nellyet¹ and Joel Fidelis D'souza¹

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Abstract:

Demonetization term is defined as the replacement of old currency with the new currency. In India, this phenomenon was conducted on 8 November, 2016 in which only high denomination notes 500 and 1000 was replaced because of the aim to remove the large amount of money from the society. Government took this steps due to various reason such as to reduce the black money and corruption from India and to develop a cashless society. By demonetization, people faced many problems as the daily routine of the people was disturbed by standing the long queue at the front of banks. But this phenomenon also affects in the positive way as a very huge and significant impact is seen in the Indian economy by the demonetization. This paper represent the different types of sectors that show the economy of the country and the impact of demonetization on these sectors.

Keywords: *Demonetization, Cashless Society, Economy*

Authors:

1. Department of Leadership and Management, Anglia Ruskin University, Cambridge, ENGLAND

Introduction

In the world, the economy of India is fast growing and bright spot compare to the other emerging markets. In India, there are multiple strengths of larger youth population, growing middle class people, increasing literacy level and improving technical knowledge shows the proactive change in the present day. The black money, corruption and financial crimes, counterfeit currency that establish the parallel economy is reduced by the coupling of demonetization with Digital India and Jan Dhan Yojana that strengthening the transparency in money transactions.

Unofficial money is termed as the black money while the official money is called as the white money. These black and white money are seen in the form of number two and number one, unaccounted and accounted, Unreported and reported, unrecorded and recorded respectively.

For every economy, money is the life blood. The needs of human beings is increased with the growth of civilization and mankind. In the past, barter system was used for completing the human needs. But with the time, the money was invented that became the strong pillar to develop the economy. This money exchange process is more useful and reliable compare to the barter system. Economy is formed from the activities such as production, exchange, distribution, and services, called formal economy.

‘Demonetization is the act of stripping a currency unit of its status as legal tender’. It is an act of transferring the existing money into another form as the replacement of old units by the new currency. In another words, Demonetization is the phenomenon of introducing new notes or coins with same denomination by replacing the old ones (**Ganesan and Gajendranayagam, 2017**).

Reason of demonetization

There are various reason for the demonetization which are given below:

- To promote a cashless economy
- To remove fake currency
- To eliminate the black money
- To reduce the corruption

- To combat Inflation
- To remove the anti-national activities done by terrorist
- To enhance the cashless economy

(Muthulakshmi and Kalaimani)

According to Reserve Bank of India (RBI), 86% notes of 500 and 1000 are more in circulation. So, Government decided to remove the large amount of money from the market by the demonetization phenomenon.

Impact of demonetization on Indian Economy

Digital India and Jan Dhan Yojan scheme give the fruitful results. Now, people are realizing the benefits of these technologies and scheme such as in the sector of bank transection. In future, the demonetization will be proved as more important evidence in educating the people about the digital payment methods.

In various ways, Demonetization affects the Indian economy. These are given below:

Parallel Economy: the main motive of demonetization is to reduce the black money, corruption and counterfeit currency. This phenomenon is able to achieve its aim because the circulation of large volume of counterfeit currency, funding of smuggling, and terrorism are affected to a little extent.

Demand: The demand of consumer goods, real estate, property and automobiles is gradually declined.

Prices: The decreasing the demand of consumer also result in the decline in the prices of consumer goods.

Economic Activities: Some economic activities such as retail outlets, ticket counters, small traders, agriculture, small and medium enterprises, households etc. and their routine function and profit are also affected in the adverse way.

Effect on Banks: The increment in the liquidity of the bank as the increment in the deposits results in the lending and reduction in rates.

Effect on Payments: The online mode of payment such as E-wallets, apps, e-banking and usage of

plastic money by which the development of the infrastructure and system is possible.

Agriculture Field: It is called the backbone of Indian economy. By the demonetization, many tragic deaths, mandi arrivals of agri commodities also crashed, rural artisans, MGNREGA workers, and agricultural labourers suffered a lot as banks run out of cash are the problems that slowed down the economic activity in rural markets.

Impact on Productivity: After the demonetization, every person have to visit to bank and ATMs due to which the loss of productivity in their work is seen.

Impact on Inflation: Due to decline in the demand, the Wholesale Inflation (WPI) rate has been decreased. According to the data, Food articles inflation dropped to 1.54 % from 4.34 (data of 2016).

Indian Currency: Rupee has become stronger than the currency of 143 countries or their economies that includes Euro, Australian Dollar, Swiss Franc, Singapore Dollar, Japanese Yen, British Pound, Canadian Dollar and Hong Kong Dollar. According to the report, 0.95% value of the rupee has been increased against US Dollar. South Asian nations, Pakistani Rupee, Sri Lankan Rupee and Bangladeshi Taka have less value compare to Indian rupee. (Sahu, 2017; Choudhary *et al*, 2017)

Benefits of cashless Society

It will be corruption free society. Cashless society does not indicates the poor society. There are lots of benefits of cashless society. These are as follows:

To carry the cash is very risky. So, the cashless society is in the favor of economies. The replacement of currency with the cashless economy would be impossible because more than 50% Indian population is unaware of the soft transaction techniques. It will be a big task giving a knowledge about the transaction techniques to a very large population in a very short period of time. Various steps are being taken by the government to improve the liquidity by supporting the cashless transactions through incentives.

The cashless society are able to eliminate the chances of theft. With the development of computer vision and neural network, the use of services of any kind become possible without the need of cash. But the condition is remain same for the rural Indians. The time and effort can be saved and it is more secure and

easily accessible to the consumer. Now these days, people carry less money due to which the chances of snatching and robbery become decreased. The use of e-wallets has been increased because it has high security (Choudhary *et al*, 2017).

Review of Literature

According to Muthulakshmi and Kalaimani, a major step demonetization of high currency, was taken by the Government to reduce the black money in India. Effects are seen to some extent in the general public. By the demonetization, the use of black money not fully removed from the country but definitely, it leave a huge impact in curbing the black money to great degree.

Singh and Singh (2016) concluded from their study that some hoarders would not to see their cash pile in the case of disappearance of the money that no benefits in the economy. The meaningful impact is seen if the money finds its way in the economy. According to the experience of different countries, it failed to fix a debt-burdened and inflation-ridden economy by one move of the series.

Choudhary *et al* (2017) stated that by the use of cashless techniques, greater height in the matter of civilization can be achieved on a global level. In this paper, they discussed the advantages and disadvantages of the demonetization phenomenon. These pros and cons are prevalent and based on the assumption of monetary policy change is required for IT driven economy in which major driver can be a cashless transactions for any monetary exchange that is monitored and secure.

Ganesan and Gajendranayagam (2017) proposed that demonetization affect the different sectors of Indian economy. There is decrement in the gross domestic product value in the recent years as compared to the previous years. They analyze the data by t-test and regression method in which result is founded as: according to t-test there in no significant difference between pre and post period while regression analysis have positive impact in long period of time. By adopting the good governance practices, providing sound infrastructure, congenial atmosphere to start business and ensuring trained workforce will impact in positive on Indian Economy.

Tanwar (2017) analyzed the impact of demonetization on banks and Indian economy and concluded that demonetization affects the black

money in the positive way as it enable to reduce the black money. Different sectors such as agriculture, small vendor, labour force, and small retail store also get affected. But In spite of these, the growth of economy have a beneficial effects by the demonetization.

According to Sahu (2017), Government bring a change in the financial sector for the new growth trajectory. By this demonetization phenomenon, new job opportunities has been created and this phenomenon also contributes into the growth of economy. They also discussed a situation that in difficult time, only online player can survive. With the time everything will get right and normal.

Shah (2017) proposed that Demonetization is fighting with the black money and corruption. But with these benefits, Demonetization gave a negative impact on Indian public. From the country approx. 86% cash is taken out. According to researcher the motive of demonetization is going worthless because targeted people are survived without any problem. On the other hand, common people are facing problems as to buy anytime with no money in pocket. They are wasting their time in queues.

Kaur (2017) stated that the reduction in the sale of goods are seen after the demonetization. The motive of demonetization is to increase the use of online transaction. E-commerce is the part of online

transaction in which buying and selling of goods and services, and transferring the data over online network. The demonetization phenomenon has brought a beneficial change in the growth of E-commerce in India. One benefit is the reduction in the payments via cash on delivery. Now, after the demonetization, the digital wallet and payment segments have emerged clear winners.

Conclusion

The motive of demonetization is to reduce the black money and corruption has been success to some extent. A large amount of black money has been destroyed from the market. This paper concludes that this phenomenon 'Demonetization' brought a new evolution in the field of finance by which the growth of economy of country is being developed. One of good impacts is the value of Indian currency has been increased. The government is trying to educate the people about the electronic transaction. But this demonetization also has the negative impact on the poor people as their live has been disturbed completely. Because of the lack of financial knowledge, they are unable to use the online technologies and live in debt. So, there is a requirement of the scheme and programme by which the unaware people can get benefits of this demonetization.



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