



DEMNETISATION – ITS IMPACT ON INDIAN ECONOMY

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ABSTRACT

Demonetization is a tool of Government to eliminate the currency from general usage. It is used in very adverse situations. Demonetization is a process of removing a currency from circulation of money in a country. It is an act where the old unit of currency gets retired and replaced with a new currency unit. It can also be considered as the act of stripping a currency unit of its status as legal tender or withdrawal of a specific currency from market. The paper discusses about the move of demonetization taken by Central Government of India on 8th November, 2016 with respect to its reasons and effects on different sectors in Indian economy. The paper is based on secondary data collected from different sectors. This paper is regarding post effects of demonetization. This is a very welcome move by the government and which has taken the black money hoarders with surprise.

KEYWORDS : demonetization, currency, money, circulation

INTRODUCTION

Demonetization scheme was an initiative that was planned in secret. On 8th November 2016, India's Prime Minister Narendra Modi announced that Rs. with the denomination of 500/- and Rs. 1000/- would cease to be the legal tender from 9th of November which was about 86% of the total value of currency in circulation. The move was surprising for the whole country. Not even the banks were notified in advance of plan. He also announced the issuance of new currency with the denomination of 500/- and 2000/- banknotes in exchange for the old banknotes permitted until 31st December 2016 (50 days from the date of the announcement). Suddenly all the money you had become a piece of paper which has no value if you did not exchange it with new currency units or deposit it in the banks. Such currency exchanges had been limited to certain specified amounts announced from time to time. People could get only Rs. 4000/- of old denomination exchanged with new one. Big queues before the banks and ATM's became the order of the day. The Ministry of Finance had been monitoring the implementation of these measures in a number of ways. Cash withdrawals were limited to ensure adequate supply of new currency notes. Usage of old currency notes permitted for certain specified periods and purposes, such as at hospitals and pharmacies, gas stations and foreign currency exchange for tourists. Now, post the announcement of demonetization by the government this money would have to either account for by paying the relevant tax and penalties or would get extinguished. The last date for the whole process was 30th of December. The person could deposit the old cash worth Rs. 2.5 lakh till said date. Any policy is it private or government will have both positives and negatives. A neutral analysis is required to understand the impact of this move. This paper throws light on how much problems faced by different sectors of the economy. A lot will depend on effective and successful implementation of the scheme.

REASONS OF DEMONETIZATION

The move by the government was to tackle the menace of black money, corruption, terror funding and fake currency of the same notes in the economy. The circulation of fake currency continues to be a threat for India because it is cash based economy. The fake notes are being used for illegal activities. Aim of this paper is to study the impact of demonetization on Indian economy.

DEMNETIZATION EFFECT ON INDIAN ECONOMY

The general public did not believe on this sudden decision, however different sections of society reacted differently to this bold step by the government. Narendra Modi's decision caused sensation in the country. Social media was flooded with information and messages. All the people except those who were indulged in malpractices welcomed the move. People started counting the trash they had accumulated for years legally or illegally. Government also carried out counter attacks. People were devising various unique methods

for transforming their black money into white one.

Many people started to pay a few months salary in advance to their employees and were paying back loans forcibly. Some tried to invest their dying currency in gold. Some contacted their near and dear ones in this miserable condition for depositing money in the accounts of their poor relatives and friends. Though the common people faced a lot of inconvenience owing to shortage of funds, they did not criticize the government for the move.

IMPACT ON AGRICULTURE

Cash is the primary mode of transaction in agriculture sector which contributes 15% to India's total output. The withdrawal of the old currency notes had put pressure on the "Wholesale centers". India's 263 million farmers live mostly in the cash economy. Demonetization adversely affected farmers. It came at a wrong time for farmers. Many of farmers were unable to get enough cash to buy seeds and fertilizers for their winter crops production. Wheat prices were already up due to low stocks. Winter crops such as wheat, mustard, chickpeas were due for sowing in a fortnight. Farmers were having problems in selling their produce as both the parties have to agree on the mode of payment. Several farmers feel they would not recover the cost of cultivation. Change for the high denomination Rs. 2000 notes is not readily available with the vegetable and fruit vendors. The government allowed farmers to withdraw up to Rs.25000 per week against their crop loan to ensure sowing of winter crops was done properly.

IMPACT ON EMPLOYMENT

Employment generation has been adversely impacted by the currency demonetization drive. Since consumer demand decreased consequently production has declined. Manufacturing sector decreased its production. Industries started at temporary job losses due to demonetization as production got hit in labour intensive sectors. Approximate 4 lakh people, mostly daily wagers may have either lost their jobs due to the lack of payment.

IMPACT ON GDP GROWTH

The demonetization will negatively impact the GDP mostly due to its impact of the cash transactions. More than 90% transactions are taking place in cash and digital transactions accounting for just the remaining 10% transaction. The core function of issuing loans has been adversely affected. As the government, has put limitations on cash exchange, cash withdrawal. This will be a very short term phenomena and is likely to be back on track in about 30-45 days. India's GDP is likely to slow down by 0.5% to 1.5% this is due to less availability of cash.

IMPACT ON BLACK MONEY

Black money is posing a great threat to the stability of our real economy. The most unfortunate aspect is that it has come to be

accepted as normal fact of life. People hardly feel concerned while dealing with it. In their view, black money is highly attractive and alluring. Cash component forms just 6% of the black money. Some people argue that since black money has reduced prices of black money intensive sectors like real estate and gold jewellery will go down. A total of Rs. 3185 crores in the black money of which 86 crores in new notes has been seized by the income tax authorities. It will also be easier for the corrupt and black money hoarders to deal in Rs. 2000 currency notes as compared to Rs. 500 and Rs. 1000 notes now be carried with greater ease. Demonetization cannot prevent future generation of black money, because this problem is more of a cultural mindset in India than a legal problem.

IMPACT ON COMMON PEOPLE

No doubt the common man is hit hardest, especially those who are daily wage earners and have no hoard of cash. Even their inadequate cash assets have been immobilized and are facing problems to meet their daily needs. The villages and rural areas had to bear the most heat as the bank branches were far off from the village and some of them do not even have a bank branch. Small businesses involved mostly in cash transactions have suffered, the move has dried their revenue as the customers struggled to find cash. The labor class who earned/saved their income in 500/1000 notes were hit because they didn't have money to purchase from the market. People with medical emergencies and weddings have been hit hard due to cash crunch. However, despite the hardships faced by the public the general sentiment is positive as people have been supportive of the government in its fight against the corruption

IMPACT ON PURCHASING POWER

People faced a problem to have lower expenditure power. With that they will not be able to purchase luxurious things. So the society will grow lesser materialistic and people more prudent with the fake money destroyed. Currency shall get respected at the international market. There shall be a great check on the terror related funding and terrorist activities. Corruption shall be down to a great extent as people will stop the tendency of accumulating money using wrong means. It will a bridge the gap between the haves and have not's. However there may be some difficulties for a couple of months. But this inconvenience shall be temporary and for short time.

IMPACT ON REAL ESTATE

Real estate sector traditionally have seen a very high involvement of black money and cash transactions. With effect of demonetization the resale properties segment will take a big hit. The legal banking channels have accounted for only a small part of all transactions. The market formed by projects undertaken by reputed and credible developers in the top 8 Indian cities will remain more or less unaffected. This is because transactions were done through legal channels. Therefore there will not be any major impact on sale in this segment. Another element of the demonetization would be reduction in cash transactions; this is likely to make it affordable to some extent. This may be visible more in the rural belt, where many non-farming entities purchase fertile farmland, not for farming but for money parking purpose. The demonetization and consequent reduction in shadow economy would bring the demand for such farm lands down. The passing of real estate regulation and development act 2016 and demonetization move will ensure that going forward the sector will become more transparent. Only players who conduct their business with integrity will survive.

IMPACT ON SMALL SCALE ENTERPRISES

India's GDP includes large contribution of Indian Micro Small and Medium Enterprises (MSME sector). Small and Micro, especially micro businesses faced lot of problems as most of the transactions take place on cash basis, because many people are not that educated and technological experts. Amongst all the three, medium sized enterprises have share of around one per cent and they generally use online mode for their payment and receipts. So the move demonetization has hampered micro businesses in a bad

manner resulting into slowdown in micro enterprise sector.

CONCLUSION

Indian economy is badly affected by black money as it is underestimating GDP. The demonetization move could change the face of the Indian economy. The government has at various times announced several schemes offering opportunities to bring black money overboard but the result are not so effective. The problem of black money cannot merely be looked upon as an anti-social activity, rather, like a cancer in the country's economy which, if not checked in time, will ruin the country's economy. Though demonetization has created some positive and some negative impacts on different sectors but in long run it definitely will have positive impact on Indian economy. Demonetization has resulted in the paving the way of new trend in the transaction as online shopping and digital payments. This will helps the banking sector to expand the business to rural areas quickly and do the more business to reach the general public for their regular activities. Demonetization will help the e-commerce industry and insist or encourage the people to use more cash less transactions in day to day life, so that the people need not carry the money in currency form for any purchases.