



DEMONETISATION ; AN ANALYSIS OF ITS LONG TERM IMPACT ON INDIAN ECONOMY

Jyoti Yadav

Assistant Professor, Shivaji College, DU

ABSTRACT

On November 2016, Indian government had taken a bold decision to demonetize its high denomination currency of Rs.500 and Rs.1000 notes. These high denomination currency notes were replaced with new currency note of Rs.500 and Rs.2000. This bold decision was taken for the betterment of Indian economy. The major objective behind such bold decision were to curb black money, check terror funding, monitoring fake currency supply, increase taxpayers base, achieve financial inclusion, move towards digitalisation etc. After the passage of more than a year, the long term impact of demonetization have been clearly visible to all of us.

According to latest report of RBI, lakh of fraudulent transaction are under investigation, around 3lakh shell companies have been discovered and around 2.1 lakh companies were deregistered due to irregularities. Around 1150 companies involved in money laundering have been caught and around 13,300 crore has been recovered. The major impact of demonetization can be seen in field of digitalisation, there is an unexpected growth of digital payment, taxpayers base rises unexpectedly, GDP growth also come back on track.

This paper focused towards analysing long term impact of demonetization on Indian economy after the passage of more than a year.

KEYWORDS : Demonetize, RBI, Denomination, Money laundering, Black money

Introduction:

Demonetisation is the act of discontinuing current currency unit of its status as "legal tender". The current form of currency is withdrawn from circulation and replaced with new currency notes or coins. The recent sudden move of Modi government to Demonetize Rs 500 and Rs1,000 currency notes is not new. Rs 1,000 and higher denomination notes were first demonetized in January 1946 and again in 1978. 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 note were demonetized in January 1946 and again in January 1978, according to RBI data.

The main aim to demonetize high denominated currency were to check undisclosed black money, corruption and fake currency. The Government of India on the 8 November 2016 announced demonetization of high denomination currency notes Rs 500 and Rs1000. A new designed series of Rs 500 and Rs 2000 banknote is in circulation since 10 November 2016.

Methodology

This paper is based on the secondary data. The secondary data was collected from various published sources like reports, magazines, journals, newspapers and the like etc.

Long term effects of Demonetisation on Indian economy

1. Moving towards digital economy

Demonetisation of Rs.500 and Rs.1000 notes leads to shortage of currency, which comprises almost 86 percent of total cash volume available in the Indian market. In order to satisfy their need people started adopting online payments system such as Paytm etc. after ban of high denomination currency in India. Digital transaction systems, E wallets and apps, online transactions using E banking, usage of Plastic money (Debit and Credit Cards), etc will definitely see substantial increases in demand. But its major impact has been felt in the way Indians have adopted a cashless mode of transactions, giving a big boost to digitalisation. From 71.27 crore digital transactions in October 2016, this figure has gone up to 111.45 crore in May 2017. Experts say that by 2020 digital payments in India will touch \$500 billion.

2. Helpful in curbing terror funding

One of the main objective to demonetise high currency note is to curb terror funding. According to latest RBI report, the government has not only been successful in flushing out black money but also eliminating funding for terrorism in Kashmir and Naxalism in affected areas. Another major impact of demonetisation has been the elimination of fake Indian currency notes which were used to

fund terror and weaken our economy. According to NIA (National Investigating Agency) 70 crore fake currency notes were pumped into Indian economy every year. So the demonetisation move proved successful in hitting terror funding.

3. Taxpayers base rises

Demonetisation leads to drastic increase in new taxpayers. The government data shows that 9.1 million new taxpayers were added in 2016-17, an 80% increase over the typical yearly rise, highlighting the impact of India's November demonetisation of high-value currencies. As per the Economic Survey analysis, new filers reported an average income, which is in many cases, close to the income tax threshold of Rs 2.5 lakh, limiting the early revenue impact.

Besides, the survey said one of the main aims of demonetisation and the Goods and Services Tax (GST) was to increase the formalisation of the economy and bring more Indians into the income tax net, which includes only about 5.93 crore individual taxpayers (filers and those whose tax is deducted at source in 2015-16). It is equivalent to 24.7 per cent of the estimated non-agricultural workforce who pays tax. There is a substantial increase in the number of income tax returns filed after demonetisation. While ITRs have increased by 34 per cent, advance tax collections of personal income tax (other than corporate tax) has shown a remarkable jump of over 42 per cent.

After November 2016, 1.01 crore (10.1 million) filers were added compared to an average of 62 lakh (6.2 million) in the preceding six years.

4. Helpful in curbing black money

One of the most important reason to support demonetization was its associating with bringing an end to the black money problem in India. According to RBI, almost 99% of old currency notes were deposited back to RBI. The statistics revealed that either the hoarders found a way to legitimize their black money or did not hold them in the form of cash. In 2016-17, a total of 3.61 lakh complaints related to suspicious transactions were registered against 61,000 complaints in 2015-16, proving how effective the government was in dealing with tax fraud. After demonetisation, tax authorities have seized undisclosed income worth over Rs 15,497 crore, a remarkable jump of 38 per cent. A significant portion of Specified Bank Notes (SBNs) deposited could possibly represent black money. Accordingly, Operation Clean Money was launched by Income Tax department on January 31, 2017 with the launch of e-verification of large cash deposit made during the 9th Nov to 30th Dec 2016, under which scrutiny of about 18 lakh suspicious accounts was initiated, a

first in India's history.

5.Improved liquidity in banks

By August 4, the RBI had ensured liquidity of Rs 10.5 lakh crore in our banking system as compared to Rs 5.2 lakh crore a year ago, which has resulted in fall in bank interest rates. It's further effect is that loan becomes cheaper, it can be availed by customer for investment ,commercial or personal purposes. The beneficiaries have been those people who have taken loans and are paying lower EMIs. The demonetisation move also led to a change in saving habits of people and more cash deposited in bank, which further helps in the formalisation of the assets market. Considerably more funds came into the organised financial markets. For example, the total assets under management of mutual funds rose by 54 per cent by the end of June 2017 from March 2016.

6.Increased revenue collection to the Government

The impressive revenue collection under GST ,it's partially credit goes to the demonetisation drive. The total revenue collection under GST remitted up to August 29, is Rs 92,283 crore, that too with only 64.42 per cent of assesses who have completed their payments. Almost 19 lakh new taxpayers have registered with the GSTN.

7.Demonetization and MSMEs

MSME (Medium, Small and Micro Enterprises) sector is the one ,which was badly hit by demonetization drive. Various micro small and medium enterprises turned towards digitalization, however, the micro industries were affected by the worst of its wrath. The micro industry owners were not a part of the black economy and they were completely unprepared for the effects of demonetization. Many micro industry workers returned back to their villages and the growth rate of these companies went as low as 1%. But now , MSME sector has been recovering from the drastic changes and getting more familiar with new technological changes ,moving towards digitalisation.

MSME sector now starts growing ,left behind the short term impact of GST and demonetisation.

8. Demonetisation and GDP

Demonetisation is being cited as one of the key contributors to the economic slowdown . With the gross domestic product (GDP) for the April-June quarter slipping to 5.7%, the reality of the economic slowdown could not be ignored. The World Bank has reduced the India GDP growth forecast to 7% for 2017-18 owing to demonetization and GST (Goods and Service tax). The steep decline in growth rate has been credited to be an effect of demonetization. But after the passage of one year the Indian economy come back on the track. The Indian economy constantly following increasing trend of quarterly GDP growth of Four quarters of 2017-18 at 5.6 percent ,6.3 percent ,7 percent and 7.7percent respectively .India again retains it's ranking as world's fastest growing economy. The overall GDP growth of India during the financial year that ends on March 31,2018 stood at 6.7 percent .Govt data shows that March quarter growth 7.7percent was the highest growth rate since September quarter 2016-17, right before banning of Rs. 500 and Rs. 1000 note The above data shows impressive recovery of Indian economy after braving all the ill effects of demonetization on the national and economic front, demonetization gave individuals several lessons that have changed the way we look at managing finances.

Conclusion

Demonetisation has played a crucial role in bringing digitalisation and financial planning into forefront for many .After demonetisation Indian economy faces the phase of economic slowdown, but now our economy come back on track, by retaining the tag of fastest growing economy. Demonetisation move successful in achieving it's primary objective of curbing terror funding ,eradicating corruption ,taxpayers base rises ,more revenue collection to the government, higher liquidity with the bank . India has withstood the immediate chaotic impacts of demonetization

and it is evident that the returns of the hardships will begin to show in the coming months. The data above shows that , short-term ill effects of demonetization have been played out completely, it is its long-term positive impact that will make the Indian economy stronger and ensure the well-being of its people.

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