



## ORIGINAL RESEARCH PAPER

## Commerce

### DEMONETIZATION

**KEY WORDS:** Demonetization, Naxelwad, Hawala market, Currency.

**Geeta**

Assistant Professor In Commerce Universal College, Ballapur, Lalru, Thes. Derabassi, Distt. Mohali, Punjab, Pin 140501

#### ABSTRACT

Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency. The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Sometimes, a country completely replaces the old currency with new currency. This paper deals with Impact of Demonetization on Economy. It outlines the effects of demonetization on GDP growth and impact of demonetization on business. This paper makes a special note on merits of demonetization. This paper concludes with some interesting findings along with policy suggestions. Not only India done demonetization of currency but also outside country also done such types of demonetization.

#### Introduction:

The country announced illegal tender to current circulation money. After announced the illegal tender that money can't valid in the market for any purpose. Government of any demonetization country announced that illegal money can deposited in any bank, post office or replace the money within the limited time. After completion that period, nobody can't replace that money and deposit money in the any branch.

#### Objectives of the study

- 1) To know about actual present outcomes of the note banned decision.
- 2) To know the potential of the note ban decision.
- 3) To estimate the consequences for future of the note ban decision.
- 4) To know the impact of note ban decision on the Indian economy.

#### HISTORY OF DEMONETIZATION IN INDIA:

**1)First time demonetization : Origins of the idea: Demonetization has earlier occurred two times in the Indian economy,** both times the goal was to combat tax evasion through black money. **The first demonetization occurred in 1946,** during the rule of the interim government under Jawaharlal Nehru. Deshmukh. He remarked that the government would be lucky to get Rs. 10 corers as tax after the implementation of demonetization. In the 1946 demonetization money of the Rs. 500,1000 & 10000. That time british government has ruled the India .That Rs 10000 was come in India market in 1938. Even then that time people has less quantity of money.

**2)Second time demonetization : The second demonetization took place in 1978 under & the Janata Party government** that had come into power after the defeat of the Congress party in the elections just after the Emergency of 1975-77. The process involved the demonetization of Rs. 10000, Rs. 5000 and Rs. 1000s notes. The objective was, again, to combat tax evasion through black money. As in 1946, it did not enjoy any particular success.

**3)Third time demonetization:** It was on November 8, 2016, evening, the Prime Minister of India, Mr. Narendra Modi, announced that on the stroke of midnight all 500 and 1,000 rupees currency notes would be discontinued as legal tenders. The life of the Indian people was no longer the same after this sudden announcement by the Indian Prime Minister. The **demonetization move in India 2016** had lead to a series of events and peaceful economic revolution within the country. The opposition in the democracy is not only to criticize the government but also praise for the good decision because there politics runs only when the country is running well.

#### The demonetization has following effect :-

- It effect black money.
- Reduces terrorism by reduce funding in the form of jali notes.
- It increases money in the government treasury.

But everything has two way ie the bank manager use the

opportunity of making money by exchanging old notes and take some donation from them for it. Due to this method some people make their money white. Country man suffer long que for money, some marriages get brakes. But as we know every good work need sacrifice it is only that. PM is very thankful to countrymen as whole country standup together to made India a corruption free country. Quartley GDP rate 2016-17 and 2017-18.

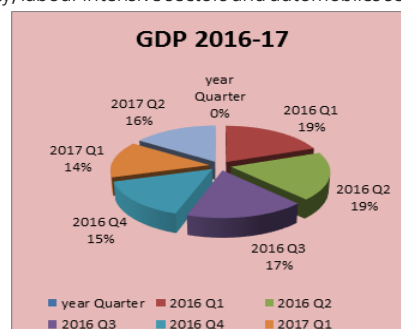
Year	Quarter	Gdp Growth
2016-17	Q1	7.8
2016-17	Q2	7.5
2016-17	Q3	7.0
2016-17	Q4	6.1
2017-18	Q1	5.7
2017-18	Q2	6.3

**Explain:** It shows that the gdp was decreasing up to Q3(quarter3) at the slowly rate. But after the demonetization it decreasing fastly as comparatively to previous 3 Quarters, during the Q4 of 2016-17 and 2017-18 Q1.Gdp decreased up to 5.7 % from 6.1%. After that it increasing 6.3 %.

Demonetization on the international level: Not only India but also oversea country are doing the demonetization time to time as the requirement. Below the data given of demonetization country. Table

Country	Year	Country	Year
USA	1969	North Korea	2000
Australia	1971	South Korea	2010
Ghana	1982	Zimbabwe	2010
Nigeria	1984	Pakistan	2015
My mar	1987	Philippines	2016
Zaria	1990	India	2016
Australia	1996		

The sectors which are majorly impacted by demonetization: Includes retail sector followed by agriculture sector, real estate, construction, media & entertainment, gems & jewellery, tourism & hospitality, labour intensive sectors and automobiles sector.



**1. Retail** – The impact of demonetization is majorly seen on the retail sector since 88% respondents said that cash crunch is leading to low consumer demand of their products ultimately causing fall in their sales since Indian retail segment generates a lot of cash transactions.

## 2. Agriculture –

Majority of the respondents (81%) respondents unanimously responded that agriculture is impacted majorly since sale, transport, marketing and distribution of ready produce to wholesale centres or mandis, is dominantly cash-dependent. Further, it has been reported by the respondents that disruptions, breaks in the supply chains, increased wastage of perishables have severely impacted the sector.

**3. Real Estate –** Majority of the respondents (77%) reported that demonetization has finished their businesses as cash is always a major component of their transaction. Like the other sectors, small real estate developers are severely impacted because of very high involvement of cash as a component of payment in real estate deals.

**4. Construction –** Construction sector is severely impacted as majority of the respondents (74%) responded that demonetization has led to lower collections in the form of customer advances as projects in early stages of construction are mostly dependent on these advances for construction progress and debt servicing.

**5. Media and Entertainment –** Due to slump in consumer spending in the wake of the demonetization drive, 68% respondents said that media and entertainment industry is impacted majorly as viewership has dropped to a very low number. The drop in demand is comparatively higher from the lower middle class.

**6. Gems & Jewellery –** Majority of the respondents (65%) reported that the impact of demonetization on Gems & Jewellery sector is quite high since cash payment is the significant mode of payment for purchasing jewellery by the substantial portion of the custom

**7. Tourism and hospitality and wellness –** According to the survey, 61% respondents responded that tourism sector is highly affected since people consume a major part of their undeclared income on luxuries. Hence, with the inability of customers/tourists to spend due to lack of available currency.

**9. Automobiles –** Automobiles sector is impacted majorly by demonetization as reported by 52% respondents. The major decline is seen in the demand of two wheelers than luxury cars/four wheelers since cash is the primary mode of transaction in the purchase of two wheeler vehicles.

**10. Naxelwad -** Naxelwad was origin from Naxelwari village of West Bengal. Some time before it was started for poor people welfare. But after some time it is raised to terrorism in the some state e.g. Kerala, Karnataka, West Bengal, Jharkhand ect. It was less effected by terrorism due to demonetization.

**11. Hawala -** Illegality foreign money brought in India. Some person went to outside country for tourism purpose. But they were not come back to India. But they send illegal money through the illegal agent. Hawala agent is a illegal agent of our country and foreign country. Hawala agent is also known as the hawaladar. He get the high level commission for sending illegal money one country to other country. But demonetization this market is also effected very highly.

## Advantages of Digital transactions:

### 1) Reduction in cash operations cost:

Cash operations costs to the RBI and other commercial banks can be limited to a greater extent with the cashless economy which is possible through digital transactions. The increased use of credit/debit cards will reduce the amount of cash that people will carry and as a consequence, reduce the risk and the cost associated with that.

### 2) Universal availability of banking services online:

Digital transactions will provide universal availability of banking services to all across the nation as there would not be any physical

infrastructure needed other than digital portals of the respective financial institutions.

### 3) Convenient and user friendly services:

Digital transactions can be performed at anytime across world through internet with no delays and queues. Also, speed and satisfaction of operations for customers, make it an efficient way of making payments.

### 4) Transparency in businesses:

An increased use of credit cards instead of cash would primarily enable a more detailed record of all the transactions which take place in the society, allowing more transparency in business operations and money transfers.

### 5) Efficiency in welfare programmers:

There will be greater efficiency in welfare programmers as money is wired directly into the accounts of recipients. Thus once money is transferred directly into a beneficiary's bank account, the entire process becomes transparent.

### 6) Reduced instances of tax avoidances and curb black money generation:

Since digital transactions are based on financial institutions, it lowers the instances of tax avoidance and money laundings due to the higher traceability of all transactions.

## Disadvantages of Digital transactions

**1) The necessity of Internet:** Since, internet is a prerequisite for digital transactions, inaccessibility of internet services at emergency situations can limit the use of digital platforms for transactions.

### 2) Higher risk of getting hacked:

The biggest fear is the risk of identity theft. With the rising incidence of online fraud, the risk of hacking will grow as more people use digital platforms for transactions in the long run.

### 3) High restrictions:

Each payment system has its limits regarding the maximum amount in the account, the number of transactions per day and the amount of output which limits its use.

### 4) The lack of anonymity:

The information about all the transactions, including the amount, time and recipient are stored in the database of the payment system which implies that the intelligence agency has an access to this information.

### 5) Difficult for technology:

Besides the practical difficulty of going digital, a bigger block is the psychological shift. The digital medium may prove a challenge for the tech-unfriendly people, who will need more time to adapt or the availability of other options to conduct transactions.

## Conclusion :

### Positives Aspects:

- 1) A good part of black money is eliminated from the economy and this money may be used for development of economy
- 2) With increased transparency, trust on Indian Economy is increased. Thereby overseas investments poured in.
- 3) Demonetization move encouraged cashless transactions, which is a raised to Economy

### Negative Aspects:

- 1) GDP growth was earlier estimated as 7.8%. After the demonetization, estimates are lowered to 7.1%.
- 2) Agriculture sector, small and medium scale businesses and informal sectors are the worst hit by demonetization Even though demonetization move created adverse short-term policy impact the real impact of demonetization.

## Reference:

- 1) Dipankar Dasgupta. (2016, December 17). Theoretical Analysis of Demonetisation. Economic and Political Weekly, Vol II No. 51.
- 2) Vineet Kohli, R Ramakumar. (2017, January

- 3). Economic Rationale of Demonetisation. Economic and Political Weekly, Vol. 51, Issue No. 53.
- 4) Tokunaga, Howard (1993). The use and abuse of consumer credit: application of psychological theory and research. Journal of Economic Psychology, 14, 285-316.
- 5) Trütsch, Tobias. "The Impact of Contactless Payment on Spending." International of JournalEconomicSciences 3.4 (2014): 70-80.