

# DEMONETIZATION AND ITS IMPACT ON INDIAN ECONOMY

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## Abstract

*India includes amidst the highest level of monetary standards available for use at 12.1% of GDP. Money available is an expected at around 3.2% of family unit resources, higher than interest in values, or generally around \$ 220 billion. Of this money, 87% is as Rs 500 and Rs 1,000 notes or generally Rs 14 lakh crore (\$190 billion). A noteworthy segment of the family unit money close by is created by monetary exchanges that are not answered to assess experts or created through defilement. Rejecting the higher group cash would either bring about these being brought into the framework or the cash simply vanishing. Demonetization can be said as a Surgical Strike "on Black Money, Terrorism, Fake Currency, Unorganized exchanges, Real Estate, Share showcase and so on then again on the off chance that we discuss the Indian business in a more extensive way it can be classifications in three sections Manufacturing segment, Service division and Agriculture part. After demonetization just Agriculture division demonstrates some positive change while on the off chance that we discuss the assembling and administration division both were slammed down and these will influence the entire Indian market in 2017 too. The present paper features the plausible results of this choice on different monetary factors and elements.*

**Keywords:** *Demonetization, Indian Economy, Black Money.*

## 1. INTRODUCTION

Demonetization for us implies that the Reserve Bank of India has pulled back the old Rs 500 and Rs 1000 notes as an official method of installment. Demonetization is the demonstration of stripping a monetary unit of its status as legitimate delicate. On 28 October 2016, the aggregate money available for use in India was Rs. 17.77 lakh crore (US\$260 billion). As far as esteem, the yearly report of Reserve Bank of India on 31 March 2016 expressed that aggregate monetary certificates available for use, esteemed to Rs.16.42 lakh crore (US\$240 billion) of which almost 86% (i.e. Rs. 14.18 lakh crore (US\$210 billion)) was 500 what's more, 1000 rupee notes. As far as volume, the report expressed that 24% (i.e. 2,203 crore) of the aggregate 9,026.6 crore banknotes were available for use. In an essential move, the Government of India proclaimed that the five hundred and one thousand rupee notes will no longer be legitimate delicate from midnight, eighth November 2016. The RBI will issue Two thousand rupee notes and new notes of Five hundred rupees which will be set available for use from tenth November 2016. Notes of one hundred, fifty, twenty, ten, five, two and one rupee will stay legitimate delicate and will stay unaffected by this choice. This measure has been taken by the PM trying to address the purpose against defilement, dark cash and fake notes. This move is relied upon to scrub the formal financial framework and dispose of dark cash from the same. The Cause of it are as under

- To handle dark cash in the economy.
- To bring down the trade flow out the nation which is specifically identified with defilement in our nation.

- To take out fake money and dodgy assets which have been utilized by dread gatherings to support psychological oppression in India.
- The move is evaluated to scoop out more than more than Rs 5 lakh crore dark cash from the economy <sup>[1]</sup>.

Additionally, RBI information demonstrated that as of March 2016, 632,926 cash notes were fake—known as a FICN (Fake Indian Currency Note). As an extent of NIC (Notes in Circulation), the 1,000 rupee and 500 rupee notes were the most noteworthy. Invalidating these FICNs was likewise part of the demonetization move. Presently we discuss the effect of Demonetization on Indian Economy Sector. To start with the economy can be bifurcated into three expansive fragments Agriculture Sector, Manufacturing Sector and Service division all these three parts contributed in Indian GDP.

- Agribusiness Sector Contribute 17% in GDP
- Assembling/Manufacturing Sector Contribute 30% in GDP <sup>[2]</sup>
- Administration Sector Contribute 53% in GDP.

## 2. Objective of this paper

- To investigate the effect of Demonetization on various areas of the economy.
- To break down the future effect of Demonetization on Indian Economy.
- To break down the current the prompt effect of demonetization on Indian economy.
- To exercise the likely results of the demonetization.

## 3. Research Methodology

The present study is quantitative in nature and auxiliary information will be utilized with the end goal of the investigation. The present investigation depends on optional information. The source of information incorporate the realities released by Reserve Bank of India (RBI), Exchange, Central measurements office India and Different bank sites.

## 4. FACT AND FINDINGS

### I. Impact of Demonetization on Agriculture Sector:-

Horticultural development in India contracted 0.2% of every 2014-15 and became close to 1.2% out of 2015-16, to a great extent in light of the fact that of consecutive dry spells. It was relied upon to develop at 4% in this year according to CRISIL Report <sup>[3]</sup>, yet because of Demonetization this estimate is demonstrated wrong since Farmers are coming up short on Cash to purchase Seeds, Fertilizer, Equipments, and Wages installment to specialists and Commission to Agents and so on. In view of Cash deficiency every day supply transport framework has likewise endured which was result in 25 to 50 % lessening in deals. Following is the principle reasons;

- a) Farmers **don't seem to be** educated and **aware of the way to** work on E-Payment System., Recent investigation by RBI Says 78% of the populace don't utilize web in which just about 80 to 85 % are Farmers.
- b) In the majority of the Villages Proper Banking framework is not Developed yet and Villagers are have to go to the urban areas for the same due to that Farmer's more often than not is occupied with trading the old notes in Banks.

### II. Impact of Demonetization on Business sector:-

According to the investigation IPP says Growth in Business segment 0.7% in October 2016 yet after 8<sup>th</sup> Nov.2016 Demonetization demonstrates an alternate picture in light of this choice work turnover is likewise expanded as absence of Production on account of law request of items individuals were buy just in the event that it fundamentally required, for this I have examined on following business part.

- a) **Textile Industry**

A large portion of the Brands and Retailers Report 40 to 60 % drop in deals after Demonetization in initial couple of weeks in any case, from December onwards this drop is somewhat diminish, yet we can state the effect of this choice has influence the business in 2017 likewise for no less than 3 to 4 months.

**b) Real Estate**

Demonetization crushed the land market and it will bring about half drop down and it will stay for promote 5 to a 6 year. While the fleeting effect is negative, Experts trusting that rate cuts in the coming months would help home deals

**c) FMCG Product**

Shopper consumptions additionally influenced by that choice now just those items are bought which was important for every day utilization and for the most part the little dealers like kirana store, small bodies, thela wala and so forth they all have done their day by day exchanges just in real money and on the grounds that customer has less trade out his stashes the every day offers of these brokers drop around 20 to 30 %. It is additionally a fleeting effect in future things get ordinary.

**III. Impact of Demonetization on Service Sector:-**

Administration division is hit extremely hard by Demonetization choice in November 2016 most exceedingly terrible Slump in almost three year is noted. The Nikkei India Services Purchasing Managers' Index (PMI), which tracks administrations area organizations on a month to month premise, remained at 46.7 in November<sup>[4]</sup>, down from 54.5 in October. The Index slipped into withdrawal region surprisingly since June 2015 and indicated the keenest decrease in yield for right around three years. On other hands in the event that we discuss Banking Sector this is the main part which was profited by that choice in numerous angles, this move will pull an extensive piece of first time clients to banks, who should utilize the framework at any rate once to trade their old notes for new ones. As indicated by an examination directed by Moody's, individuals tend to proceed utilizing keeping money benefits once they have crossed the 'first-time client' stamp. This improvement will build bank stores by 1% to 2% percent contrasted with what they were before the demonetization conspires<sup>[5]</sup>.

**5. THE PROBABLE CONSEQUENCE OF THE DEMONETISATION**

The following likely effects on the economy will be watched if a generous segment of the money is either revealed or, on the other hand is devoured in the economy.

- I. **Tax Duty:** Having shut the deliberate exposure window for undisclosed cash, it has been accounted for that administration will keep a nearby watch on stores over Rs 2 lakh in real money. This would mean expanded assessment net, higher duty gathering what's more, a superior duty to GDP proportion. Philips Capital in a report says that the degree of parallel economy, which was 23.2% of GDP<sup>[6]</sup>, is presently around 25-30% of GDP. As the cash gets accounted and more charges are gathered, government may be enticed to decrease assess rates going ahead.
- II. **Interest Rates:** One of the greatest effects of demonetization would be high esteem exchanges, particularly arrive and gold. This would bring about lower expansion, enticing the national bank to decrease loan costs. Be that as it may, the greater effect on loan fees will be the liquidity with which banks will be flushed. CLSA's focuses out that banks would profit with higher CASA (current record investment account) development as a piece of the \$ 190 billion money heap gets saved with them. Higher store development and proceeding with powerless credit development would make open doors for loaning rate slices and speculation exercises to get.
- III. **Liquidity:** Movement of merchandise and cash will be hit in the short. A Bank of America Merrill Lynch note says that discount channel frames more than 40% of the deals for the Indian shopper firms. This channel works predominantly on money exchanges and will probably witness liquidity requirements in the close term. This could upset the store network and affect development in the December quarter. The report additionally includes that purchaser firms regularly give tight credit terms (Less Than 7 days) to the merchants, who thusly give credit to the wholesalers/outlets all

- alone records. Due to general fixing of the trade liquidity out the inventory network, shopper firms might be compelled to offer simpler credit terms to the wholesalers in the close term. Subsequently we expect an expansion in their receivables in the December quarter.
- IV. **GST:** Demonetization comes at a critical as the nation heads to another duty administration with the execution of GST. Demonetization would expand the expense net and alongside GST result in decrease of dark cash era. Alongside GST, demonetization will prompt a higher expense/GDP proportion, says CLSA<sup>[8]</sup>. Budgetary Assets: As cash lying inactive comes in the primary economy it would move to higher yielding and fluid resources. Cash is probably going to move to budgetary resources from gold, valuable metals, land and plain money. Values might mirror the frenzy in the economy for the time being, however the move is will be useful over the long haul say most of the representative's report and master remarks.
- V. **Impact on parallel economy:** The expulsion of these 500 and 1000 notes and supplanting of the same with new 500 also, 2000 Rupee Notes is required to - expel dark cash from the economy as they will be hindered since the proprietors won't be in a position to store the same in the banks, - Temporarily slow down the dissemination of expansive volume of fake money and - check the financing for hostile to social components like sneaking, psychological warfare, reconnaissance, and so forth.
- VI. **Impact on Money Supply:** With the more established 500 and 1000 Rupees notes being rejected, until the new 500 and 2000 Rupees notes get generally coursed in the market, cash supply is required to diminish in the short run. To the degree that dark cash (which is not fake) does not re-enter the framework, save cash and subsequently cash supply will diminish for all time. However step by step as the new notes get flowed in the market and the confound gets rectified, cash supply will get.
- VII. **Impact on Demand:** The general request is relied upon to be influenced to a degree. The request in following zones is to be affected especially: CARE Ratings has taken most extreme care to guarantee exactness and objectivity while building up this report in view of data accessible in broad daylight area. Be that as it may, neither the precision nor culmination of data contained in this report is ensured. CARE Ratings is not in charge of any blunders or exclusions in examination/surmisings/sees or for comes about acquired from the utilization of data contained in this report and particularly expresses that CARE Ratings has no monetary risk at all to the client of this report Economics I Economic results of demonetization of 500 and 1000 Rupee Notes 2 Consumer goods Real Estate and Property Gold and extravagance goods Automobiles (just to a certain limit) All these specified divisions are relied upon to confront certain control sought after from the shopper side, attributable to the critical measure of trade exchanges required out these segments<sup>[9]</sup>.
- VIII. **Impact on Prices:** The Price level is relied upon to be brought due down to control from interest side. This request driven fall in costs could be comprehended as takes after:
- ✓ Consumer products: Prices are required to fall just imperceptibly because of control sought after as utilization of cards what's more, checks would make up for a few buys.
  - ✓ Real Estate and Property: Prices in this division are to a great extent anticipated that would fall, particularly for offers of properties where real piece of the exchange is money based, instead of in light of banks exchange or check exchanges. In the medium term, however the costs in this segment could recapture a few levels as engineers rebalance their costs (presumably charging more on check payment)The Indian land showcase which is to a great extent divided and chaotic has had a notoriety of being a place of refuge for dark cash and along these lines we hope to see affect on the part. The effect is probably going to be found in optional markets in this manner making land more "illiquid" for a timeframe till the market acclimates to another typical<sup>[10]</sup>. It won't have any effect on the essential private fragment as the purchasers in this segment are driven by contract. The effect will be felt in the optional market and the sloppy engineers' group where there were still money managing. Costs boiling down to more sensible levels in the lodging market can't be discounted. In the prompt future, the segment will be under genuine weight with volume and number of exchanges in private and land markets seeing a generous descending pattern. This choice alongside land administrative law, GST and Real Estate Investment Trusts would additionally make strides straightforwardness and increment financial specialist trust in the land showcase.

- ✓ **Impact on Various Economic Entities:** With trade exchange bringing down out the short run, until the point that the new notes are spread broadly into course, certain segments of the general public could confront here and now interruptions in help of their exchanges.

These areas are:

- ✓ Horticulture and related area
  - ✓ Small brokers
  - ✓ SME
  - ✓ Services Sector
  - ✓ Households
  - ✓ Political Parties
  - ✓ Professionals like specialist, craftsman, utility specialist co-ops, and so forth
  - ✓ Retail outlets
  - ✓ Economics I Economic outcomes of demonetization of 500 and 1000 Rupee Notes 3 The nature, recurrence furthermore, measures of the business exchanges required with these areas of the economy require money exchanges on more regular premise. Along these lines, these sections are relied upon to have the most critical effect post this demonetization process and the presentation of new notes available for use.
- IX. **Impact on GDP:** The GDP development could be affected by this measure, with lessening in the utilization request. However with the current ascent in celebration request is relied upon to counterbalance this fall in general effect. Besides, this normal effect on GDP may not be noteworthy as some of this request may be conceded and re-enter the stream once the money circumstance ends up plainly ordinary. **Impact on Banks:** As coordinated by the Government, the 500 and 1000 Rupee notes which now stop to be lawful delicate are to be stored or traded in banks (subject as far as possible). This will consequently prompt more sums being saved in Savings and Current Account of business banks. This thus will upgrade the liquidity position of the banks, which can be used further to lend purposes. Be that as it may, to the degree that families have clutched these assets for crisis purposes, there would be withdrawals at the second stage<sup>[11]</sup>.
- X. **Impact on Online Transactions and option methods of installment:** With money exchanges confronting a lessening, elective types of installment will see a surge popular. Advanced exchange frameworks, E wallets and applications, on the web exchanges utilizing E managing an account, utilization of Plastic cash (Debit and Credit Cards), and so forth will see considerable increment sought after. This ought to inevitably prompt fortifying of such frameworks and the foundation required. CARE's View despite the underlying hiccups and disturbances in the framework, in the long run this change will be well absorbed and will demonstrate positive for the economy over the long haul.
- ✓ Black cash hoarders will miss out, in the long run boosting the formal economy over the long haul.
  - ✓ Short term fall in land costs may profit white collar class nationals.
  - ✓ This move by the Government alongside the execution of the GST will in the long run make the framework more responsible and effective.

## 6. THE SECTORAL IMPACTS

While segments with linkages to the sloppy economy are probably going to be influenced, innovation and money related administrations are required to pick up in the medium to long haul. On a sectoral premise, the wares and agrarian division, counting the market for purchaser durables and non-durables is relied upon to feel the warmth. In the short to medium term, huge group buys will probably be made by means of electronic buys instead of through block and mortar outlets. This will affect the retail part unfavorably. The land division is probably going to see a critical negative effect in the medium-to long haul, especially in the repurchase showcase. There are desires of a revaluation of current land exchanges no matter how you look at it speaking to conceivable misfortunes to players in the area<sup>[11]</sup>. The extravagance merchandise advertise is additionally liable to get influenced as this move speaks to a disintegration of genuine riches to a vast Areas of sub-sectoral effect will be felt in extravagance autos, SUVs, pearls, adornments, diamonds, gems, gold and top of the line marked items. The land division is probably going to see a critical negative effect in the medium-to long haul, especially in the repurchase showcase. There are desires of a revaluation of current land exchanges no matter how you look at it speaking to conceivable misfortunes to players in the area. The extravagance products advertise is additionally liable to get influenced as this move speaks to

a disintegration of genuine riches to countless. On the positive side, there is probably going to a reset of spending designs as this move speaks to by implication a huge push towards a cashless economy. Organizations in the balance tech division, including installment banks, versatile wallets, electronic exchange suppliers, and so on.,are relied upon to see picks up.

Postive Impact	Negative Impact
E-commerce and Fintech	Agriculture
1) Payment gateways	Luxury goods
2) Cards	Real Estate
3) Mobile wallets	Commodities
4) Online retail	Traditional Retail
5) Net and payment banks	1) Consumer durables
6) e-marketplace	2) Consumer non-durables

Table 1:Impact of Demonetization

## 7. CONCLUSION

In the event that the cash vanishes, as a few hoarders might not want to be seen with their money heap, the economy won't advantage. Then again if the cash discovers its way in the economy it could have a significant effect. In any case encounters from various nations demonstrates that the move was one of the arrangement that neglected to settle an obligation troubled and expansion ridden economy

The present investigation demonstrates the effect of Demonetization on Indian economy's diverse areas. Gross domestic product of Country marginally diminishes as contrast and the earlier year however we can't state it will be same in future moreover. —This intercession is a one-time depleting of this present supply of dark cash yet unless the underlying drivers of debasement are evacuated, defilement will proceed. It is similar to a dialysis, even more a fleeting tidying up than an answer of the issue. It should be rehashed periodically. After investigation of Demonetization following inquiries raised for the year 2017.

- I. What was the effect of Demonetization in 2017 on Indian business area?
- II. What could be the subsequent stage of Government after Demonetization?
- III. What will be the effect of Demonetization on GDP in here and now and long haul?
- IV. To what degree the progression of Demonetization has check issues like dark cash, Corruption, fake Currency what's more, Terrorism?
- V. How this progression will influence the work era openings?

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