

IMPACT OF DEMONETIZATION ON INDIAN ECONOMY - A MICRO LEVEL ANALYSIS

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Karnataka Arts & Commerce College, Dharwad***ABSTRACT**Article DOI URL: <https://doi.org/10.36713/epra3226>

Indian government adopted demonetization on 08 November 2016 to tackle with black money and make India a cashless digital economy. As per the yearly report of Reserve Bank of India of 31 March 2016 that total currency notes in circulation is 16.42 lac crore of old Rs. 500 and Rs.1000 banknotes. As per the report of RBI dated on 14-12-2016, the total amount of old notes of value of Rs. 12.44 lac crore has been deposited by the customers till 10-12-2016. Banks started accepting deposits from 10 November but within a period of 15 days approximately half money has been received by the banks.

India is the second most populated country in the world with nearly a fifth of the world's population. Out of the total 121 crore Indians of Indian population, 83.3 crore of population live in rural areas while 37.7 crore stay in urban areas, said the Census of India 2011. As a rural populated country most of the rural population are engaged in agricultural activities as most of the population of rural areas depends on agriculture. Agriculture forms the backbone of the country's economy. The agricultural sector like forestry, logging and fishing accounted for 17% of the GDP contributes most to the overall economic development of India

KEY WORDS: *Demonetization, Cashless Transactions, , tax evasion, Cash Crunch, Digital Economy.***I. INTRODUCTION**

The 'demon' in demonetization is in the beginning. Any Government withdraws the legal tender rights of any denomination of currency, it is known as demonetization. On November 8, Indian Prime Minister Mr. Narandar Modi announced in a broadcast to the nation that Rs. 500 and Rs. 1000 currency notes would no longer be recognized legally as currency. The total currency in circulation in India was Rs. 16.42 lac crore (US\$240 billion) of Rs. 1000 and Rs. 500 notes. The government believe that this demonetization is required for the four main reasons first reason is for stopping the funding of terrorism, second reason for facing the problem of fake Currency, Third reason for making the black money worthless and fourth reason for reducing the corruption, etc. The need for the government to keep the move a secret because the tax evaders would not be aware before the announcement of demonetization took place. For Modi, this is work in progress. In his speech to the nation, he highlights what his government has done so far. Narandar Modi has prompted it will take 50 days for people to adjust to the change. This announcement appears to be the most important change made by the Narandar Modi's government to date, says Girish Vanvari, partner and head KPMG in India. Demonetization

is the most important and necessary when there is a change of national currency. The old unit of currency replaced with new currency. Demonetization is the process where government declares the currently running currency notes illegal to be tender after the declaration is made. There are both pros and cons of demonetization in the Indian economy. The reasons for demonetization are to control counterfeit notes that could be contributing to terrorism, and to undermine or eliminate the "black economy". There are some potentially ways in which the pre-demonetization money supply will stand altered".

II.OBJECTIVES OF THE STUDY

The present study aims at examining the people impact on demonetization- a macro level analysis. For this purpose following objectives have been outlined.

- To study the impact of demonetization on common person of India
- To study the impact of demonetization on economy of India.

III. RESEARCH METHODOLOGY

The paper is based on secondary data. The data has been collected from internet, articles newspapers etc. Graph and percentile method has been used to analyze the data. The

following analytical techniques will be employed and the present study also tries to assess the impact of people impact on demonetization- a macro level.

IV. LIMITATIONS OF THE STUDY

The study analyses the present study aims at examining the people impact on demonetization- a macro level perspective. The present study suffers from the following limitation. The conclusions drawn from the study have limited applications and they may not be generalized, the limits are also set by the availability of data and the personal capacity of the researcher.

V. REVIEW OF LITERATURE

Mukhrjee et al. (November 2016) [4]. studied about the impact of the present government move for demonetization on the credit availability, government finance, spending and levels of various activities. The researchers stated that in a very short period there would be more serious affect on persons earning income in cash as well as spending in cash while impact will be up to a lesser extent on those earnings in non-cash form but spending in cash. Each sector backing demand by cash along with the real sector especially the unorganized one will much adversely effected in very short run time. In case of short term effect having complete replacement, an immense strengthening of informal sector credit market would be seen in the rural market and there would be adverse affect on construction sector.

Mohd. (November 2016) [5]. studied about the significance as well as challenges of demonetization of currency notes. Secondary data was used for this study collected from various newspapers as well as websites. The researcher concluded through the study made that no doubt this move was going to disturb the routine life of 'Aam Aadmi' (common man of India) influencing largely the unorganized sector including organized sector up to a limited extent but the real consequences of move will have bigger implications on the Indian economy as a whole in the long run. Sunita (September 2014) [6] in her research study attempted to get insight about the reasons as well as measures adopted by the government on demonetization that was implemented in Indian context. It was a conceptual study based on secondary sources. She concluded that the enhancing trade deficit, 1965's war between India and Pakistan, gulf war, political as well as economic stability, dwindling foreign exchange reserves, withdrawn of FII's (Foreign Institutional Investors) and strengthen of dollar were the key reasons behind the move for demonetization by the government in India and the measures adopted by the government included imposition of quantitative restrictions, provision for export subsidies, establishment of dual exchange regime, adoption of floating exchange rate system, increase in FII's limit, enhancement of ceiling up to a limited time frame, use of some proportion of borrowed funds overseas for the domestic expenditure, withdrawn of rebooking of forward contracts post cancellation and reduction of NOOPL (Net Overnight Open Position Limit). The literature review has revealed certain gap which indicates future research Entitled "people impact on demonetization- a macro level perspective." V. Reasons of Demonetization According to The Reserve Bank of India, there were mainly three reasons to take the said initiatives which are like:

- To address black money in the economy.
- To control the cash circulation in the country relevant to corruption.
- To remove fake currency and dodgy funds used by terror groups to fund terrorism in India

VI. EFFECTS OF DEMONETIZATION ON INDIAN ECONOMY: MACRO LEVEL PERSPECTIVES

Demonetization had created various impacts on the economy. Most of the sectors where transactions are done on cash basis were affected highly. Somewhere it was boom where in other sectors temporary slowdown was found. For the research paper researcher has considered various sectors where there has been vital impact according to researcher.

- **Temporary Liquidity shortage:** It was the time when people were standing in long queue to exchange the money. The highly used denomination currency is Rs.500. People were not getting that money currency. There was a shortage of the currency which was clearly observed.
- **Time of Currency Shortage:** reports suggested that all printing presses could print 2000 million units of RS 500 notes by the end of year. Nearly 16000 million Rs 500 notes were in circulation as on end March 2016. Some portions of this were bridged by the new Rs 2000 notes. Towards end of March approximately 10000 million units were printed and replaced. All these suggested that currency crunch was going to be continued in our economy for the next four months.
- **Loss for population using currency:** Most of the poor section of society uses cash for their livelihood. They depend most of the time on cash basis transactions as such they receive wages in daily basis in cash. Due to shortage of cash it was assumed that companies will try to lower down cash expenses and may reduce their labor cost. Because of shortage of cash poor section of society including labors and workers will not get enough wage and payment.
- **Consumption affected:** Consumption was adversely affected because of the liquidity problems and because of consumption the entire cycle was disturbed temporarily.
- **Predicted Loss of Growth:** India wants to be fastest growing economy but because of liquidity position there was a doubt on growth position of India. Because of liquidity crisis GDP and income figures also were at risk.
- **Effect on bank deposits and interest rate:** For short run deposits with banks were hiked as people deposited their money to convert their old currency into new one but once when the new currency supply in the economy was full-fledged once again people had withdrawn their money from the banks because it was the money they deposited to convert in to new currency. This was the amount deposited by people which they were using for liquidity not for investment. Interest rates were predicted to be reduced only for short to medium run but not for long run.
- **Effect on black money:** The problem of black money had been addressed but only to limited extent because only few portion of black money is held in cash and rest other portion of black money is held in the assets and properties. The extent of addressing black money depended on the amount of black money held in the form of cash. However

this measure had created huge awareness among the public and citizens of the country to address the issue of black money.

- **Effect on fake currencies:** The major effect of this measure had been on fake currency as its circulation has been evaluated after this exercise.

VII. CONCLUDING REMARK

Demonetization is considered with some advantages and disadvantages in various sectors in short run but in long run it definitely will have positive impact in controlling black money and fake money. This move will have major impact on the parallel economy but sudden announcement and failure to prepare in advance has created temporary chaos and discomfort among the general public. Apart from positive benefits it created some inconvenience to poor sections of the society. In short run also we could easily identify its impact on the economy, from the above discussion it is clear that the decision taken will have far reaching impact on the economy.

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