

An Overview on Impact of Demonetization in the Current Scenario (2016-17) of Indian Economy

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Abstract - The argument posited in favour of demonetization, therefore it is imperative to evaluate the short run and medium-term impacts that such a shock is expected to have on the economy. This paper elucidates the impact of such a move on the availability of credit, spending, and level of activity and government finances. The Government of India announced that the Rs 500 and Rs. 1000 denominated currency notes will cease to be legal tender. The move was targeted towards tackling black money, corruption and terrorism. Declaration of 86 percent of currency notes as illegal tender in just a blink of time on eve of 8th November 2016 mandated the creation of immediate interruption in daily lives. The chaos was created in every strata of the society whether upper, middle or lower. This paper aimed at reviewing the general implications of demonetization on the people of India.

Keywords: Demonetization, Black money, corruption, underground economy

INTRODUCTION

Demonetization is a generation's memorable experience and is going to be one of the economic events of our time. Its impact is felt by every Indian citizen. We the undersigned support all efforts to stop corruption, stamp out black money and counterfeit currency, and act against funding that helps creates unrest in the country be it through terrorism or creating divisions and hatred among people. On 8th November 2016 at 8 PM, Prime Minister Shri Narendra Modi announced the devaluation of 500 and 1000 currency notes and introduction of new 500 and 2000 notes. This process is called Demonetization. The decision to demonetize Rs 500 and Rs 1000 notes is misconceived and will not address the problem of black money in the entire nation.

Demonetization has been effected is leading to a riot like situation in the country. Black money is generated through evasion of taxes on income from lawful activities and money generated from illegal activities. In the absence of steps to curb the generation of black money, demonetization is a futile exercise, as it proved to be in 1978. Demonetization as a cleaning exercise may produce several good things in the economy. It creates unavoidable income and welfare losses to the poor sections of the society who gets income based on their daily work and those who doesn't have the digital transaction culture. Overall economic activities will be dampened in the short term. But the unmeasurable benefits of having more transparency and reduced volume of black money activities can be pointed as long term benefits.

(Source: <http://www.indianeconomy.net>)

In a major step to check undeclared black money the Government of India on the 8 November 2016 announced demonetization of Rs 500 and Rs1000 banknotes with effect from the same day's midnight, making these notes invalid. Apart from combating black money, the stated purpose is also to check fake currency (used to finance terrorism) and corruption. A new redesigned series of Rs500 banknote, in addition to a new denomination of Rs 2000 banknote is in circulation since 10 November 2016. The new redesigned series is also expected to be introduced to the banknote denominations of Rs1000, Rs100 and Rs50 in the coming months.

Demonetization is defined as act of stripping a currency unit of its status as legal tender. It refers to valueless of county's current currency and replacing it with new currency. Demonetization is not a new concept in the past also it has been utilized by various countries as well as India to curb currency some failed very badly with this move. (Source: <https://www.ncaacademy.com/know-all-about-history-of-indian-currencydemonetisation>)

REVIEW OF LITERATURE

Review of literature has been undertaken to elaborate a wide range of impact of demonetization on India economy and identity related issues and to construct questions for the present research study. Moreover, available literature of demonetization has been scrutinized and included to point out gaps in our information. The impact of demonetization issues in India has been of great interest to scholars from various disciplines and quit a large several studies have been conducted in this record.

P. Patnaik, (2016), stated that the black money is generated through evasion of taxes on income from lawful activities and money created from illegal activities. In the absence of steps to control and curb the generation of black money, Demonetization is a futile exercise. Demonetisation has been effected is leading to a riot such kind of situation in the nation. We demand that the Government ensure that common people have immediate access to enough money to pay for their daily needs and health emergencies. Failing which we demand the rollback of demonetisation or suspension of demonetisation to enable the common person to make adequate arrangements for daily needs. The Government role behind it, is to undertake honest tax administration and not to treat the common person like a criminal making him/her stand in line and filling forms to access his/her own legitimate money.

P. Kumar Vijay, (2016), in his study reviewed that the term demonetisation is not new to the Indian economy. 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 notes were demonetised in January 1946 and again in January 1978, according to RBI data statement. The Reserve Bank of India manages currency in India and derives its role in currency management on the basis of the Reserve Bank of India Act 1934 and a new redesigned series of Rs 500 banknote in addition to a new denomination of Rs 2000 banknote is in circulation since November 10, 2016. The decision was taken to curb the illegal use of high denomination currency which was used for corruption in the country.

Varshith J. R., (2016), in his study has stated that the move to demonetize Rs 500 and Rs 1,000 currency tenders by the union government of India during the year of 2016 was a laudable and historic effort to clean up the decade's long corruption and black money. As Indian citizens we all should be proud of the fact that we elected a government which was capable of taking such brave decision for the long-term betterment of the country's economy. In the present economic situation black money has inflated prices in real estate, gold and a few other sectors, making it a challenge for a common Indian citizen to invest. However the government's attempt to curb black money will significantly lower the prices in the country.

V. Gupta (2016), he points out that the main objective of this move was to curb the black money, corruption and fake money menace. All the people but those who were indulged in malpractices welcomed the move. The new currency which replaced the old one is of denomination of 500 and 2000 notes. Though the people faced a lot of inconvenience owing to shortage of funds they did not criticize the government for the move. Even they lauded the currently (2016) Prime Minister of India for this big move. Prime Minister also addressed the people many times telling the people that it was a mahayajna and they must offer their own ahuti in it. Moreover, further said Modi was aware the hardships, people would suffer from but he sought only 50 days for setting the things right. He jibed at the chief political leaders who have stashed big amount of money and now joined hand to force government to take the decision back. The most interesting thing regarding the demonetisation is that people are devising various unique methods for transforming their black money into white one. Some of these methods are as follows:-

- Depositing money in the accounts of their poor relatives and friends.
- Enticing the people with some percentage of money for exchange.
- Asking their employees to stand in the long queues in front of Banks and ATMs for getting money exchanged.
- Hiring labors for some Rupees ranging from Rs 500/to 700/for becoming the part of long queues in front of banks/ ATMs.
- Converting black money in to gold.
- Paying a few months salaries in advance.
- Paying back loans forcibly.
- Using their influence / links with bank employees and so on.

OBJECTIVE:

The following objective of the study are:-

- To examine the challenges and effects of demonetisation in India

METHODOLOGY:

Methodology: The present study entitled: **An Overview on Impact of Demonetization in the Current Scenario (2016-17) of Indian Economy** is based on secondary sources. The secondary data will be collected from the ministry of finance, magazine, books, journals, government reports and from various reports and websites.

The challenges and effects of demonetisation in India: Demonetization is going to be one of the economic events of our time. Impact of demonetization is felt by every citizen of India. Demonetization affects the economy through the liquidity side. Effect of demonetization will be telling one because nearly 86 per cent of currency value in circulation was withdrawn without replacing bulk of it. As a result of the withdrawal of Rs 500 and Rs 1000 notes there occurred huge gap in the currency composition as after Rs 100 and Rs 2000 is the only denomination. Absence of intermediate denominations like Rs 500 and Rs 1000 will reduce the utility of Rs 2000. Effectively this will make Rs 2000 less useful as a transaction currency though it can be a store value denomination. Demonetization technically is a liquidity shock a sudden stop in terms of currency availability. Demonetization creates a situation where lack of currencies jams consumption, investment, production, employment etc. In this context the exercise may produce following short term, long term, consumption, investment, welfare, growth impacts on Indian economy. The intensity of demonetization effects clearly depends upon the duration of the liquidity shocks. These are the following number of main impacts: Demonetization is never a huge disaster like 2007 global banking sector crisis, but it will act as a liquidity shock that disturbs the entire economic activities in the country.

Liquidity crunch (short term effect): liquidity shock means people are not able to get sufficient volume of popular denomination especially Rs 500 rupees note. This currency unit is the favourable denomination in daily life. It constituted to nearly 49 percent of the previous currency supply in terms of value. Higher the time required to resupply Rs 500 notes higher will be the duration of the liquidity crunch. Current reports indicate that all security printing press can print only 2000 million units of RS 500 rupee notes by the end of this year (2016). There are large amount of quantity of Rs 500 notes was in circulation as on end March 2016. Some portion of this was filled by the new other currency notes. All these indicate that currency crunch will be in our economy for the next coming months.

Welfare loss for the currency using population: Most active segments of the population who constitute the base of the pyramid uses currency to meet their transactions. The daily wage earners, other labourers, small traders etc. who reside out of the formal economy uses such kind of cash frequently. These sections will lose income in the absence of liquid cash. Cash stringency will force firms to reduce labour cost and thus reduces income to the poor working class.

Consumption will be hit: When there will be shortage of liquidity or liquidity shock, it is consumption that is going to be adversely affected first. All about that indicated below in equation:

Consumption ↓ → Production ↓ → Employment ↓ → Growth ↓ → Tax revenue ↓

Loss of Growth momentum: India risks its position of being the fastest growing largest economy: reduced consumption, income and investment etc. may reduce India's GDP growth as the liquidity impact itself may last time

Impact on interest rate, bank deposits: Deposition of banking sector in the short term may rise but in the long term its effect will come down. The banks saving are actually liquid cash of people stored. It is difficult to assume that such ready cash once stored in their hands will be put into savings for a long term. They saved this money into banks just to convert the old notes into new notes. These are not voluntary savings aimed to get interest. This means that new banks savings is merely transitory or short-term deposit item. It would be convert into new active liquidity by the savers when full-fledged new currency supply take place. It may be uncashed by the savers at the appropriate time. It is never significant that demonetization will make huge amount of savings in the banking sector in the medium term. Most of the savings are conferred by big public sector banks like SBI. They may reduce interest rate in the short or medium term, but they can't follow it in the long term.

Impact on black money: one of the important component of demonetisation is the impact on black money but instead that only very little portion of black money is actually collected in term of cash. Usually happening black income is kept in the form of physical assets like gold, land, buildings etc. Hence the amount of black money countered by demonetization depend upon the amount of black money held in the form of cash and it will be smaller than expected. But more than anything else, demonetization has a big propaganda effect. People are now much convinced about the need to fight black income and such a national level awareness and urge will encourage government to come out with even strong measures.

Impact on counterfeit currency: Another important real impact of demonetisation will be on counterfeit or fake currency as its circulation and supply will be control as well as strictly checking after this exercise. Demonetization is a quite clean exercise, practice and may produce several good things in the economy of nation. Moreover, it creates unavoidable income and welfare losses to the poor peoples of the society who gets income based on their daily work strata and those who doesn't keeping the benefits of digital transaction culture. Overall country's economic activities would get disturb in the short term. But the unaccountable and unmeasurable benefits of having more transparency and reduced the quantity of black money activities can be pointed as long term benefits.

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