

IMPACT OF DEMONETIZATION IN INDIA

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ABSTRACT:-

The November 2016 demonetisation of currency in India had a profound impact on the country's economy and society. Despite the government's stated goal of combating black money and counterfeit money, the abrupt removal of large denomination notes caused havoc and inconvenience for both individuals and companies. The decision had a short-term negative impact on cash-dependent industries like small companies and agriculture, which caused the economy to grow more slowly. Demonetisation did, however, also promote digital trade and economic formalisation, which accelerated the transition to a cashless society. Detractors criticise its rushed implementation and bad effects on the poor and marginalised elements of society, while advocates hail demonetisation as a brave effort against corruption. The long-term effects of demonetisation on India's economy are still being passionately disputed.

Introduction:

Demonetisation refers to the act of stripping a currency as legal tender. It is an economic process whereby the official currency of a nation is devalued. When demonetisation takes place, the nation's currency is effectively useless and cannot be used for regular transactions. Additionally, fresh coins or notes are used to replace this method of payment. There was 17.77 lakh crore worth of cash in circulation in India as of October 28, 2016.

According to the Reserve Bank of India's annual report dated March 31, 2016, the total value of bank notes in circulation was valued at 16.42 lakh crore, of which almost 86% (i.e., 14.18 lakh crore) were 500- and 1000-rupee notes. According to the report, 2,203 crore banknotes, or 24 per cent, of the total 9,026.6 crore banknotes were in circulation. On November 8, 2016, the honourable Prime Minister Narendra Modi declared that the 500- and 1000-rupee notes would no longer be in circulation in India.

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The government made a significant decision that affected every sphere of society. The demonetisation of currency has changed the course of financial transactions in India.

little effect. But in 1954, both notes were reinstated together with an additional 5,000 in cash. The year, 1934 saw the introduction of 500- and 1000-rupee notes; four years later, in 1938, 10,000 notes were released.

India's history with demonetization: From 1946 to 2016

Sl. No.	Currency ban	Image
1	The 1,000- and 10,000-rupee notes were taken out of circulation in 1946. Since most individuals could not afford such larger denomination currency, the ban actually had little effect. But in 1954, both notes were reinstated together with the addition of Rs 5,000 in circulation. In 1934, the 500- and 1000-rupee notes were introduced, and four years later, in 1938, the 10,000-rupee notes were introduced.	
2	That happened in 1978 when India's then-prime minister, Morarji Desai, stated that Rs. 1000, Rs. 5000, and Rs. 10,000 would no longer be in circulation. The prohibition was only intended to reduce the amount of black money made in the nation.	
3	On November 8, 2016, the Indian government declared that the Rs. 500 and Rs. 1000 banknotes would be demonetised at midnight that same day, rendering them worthless. In addition to fighting illicit money, the declared goals include preventing corruption and counterfeit money, which are used to fund terrorists. Since November 10, 2016, two new banknote denominations—the Rs. 2000 and the Rs. 500—have been put into circulation.	

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was only intended to reduce the amount of black money made in the nation.

November 2016 demonetization move:

On November 8, 2016, the Indian government took the decision to demonetise the two largest denomination notes, the Rupee 500 and 1000, which account for 86% of the nation's total cash supply chain.

Reasons for Demonetisation

The government decided to demonetise in 2016 after consulting with the RBI to address the issues like black money, counterfeit currency, terror financing, corruption digitisation and formalisation of the economy.

IMPACT OF DEMONETIZATION ON INDIAN ECONOMY

1) Effect on Parallel Economy

It is anticipated that the withdrawal of these 500- and 1000-rupee notes and their substitution with new 500- and 2000-rupee notes will eliminate black money from the economy because their owners won't be able to deposit them in banks, temporarily halt the flow of large amounts of counterfeit money, and reduce funding for anti-social activities like terrorism, smuggling, espionage, etc.

2) Effect on Money Supply

The money supply is predicted to decline in the near term as a result of the older 500- and 1000-rupee notes being retired and replaced by new 500- and 2000-rupee notes

that are likely to be widely used in the market. Reserve money and the overall money supply will permanently decline to the degree that black money which is not counterfeit does not re-enter the economy. The money supply will, however, steadily increase when the fresh notes are sold and the discrepancy is fixed.

3) Effect on Demand

There will likely be some impact on total demand. The areas like real estate and property, gold and luxury goods, automobiles (only to a certain limit) will see a specific impact on demand. All these sectors are expected to face certain moderation in demand from the consumer side, owing to the significant amount of cash transactions involved in these sectors.

4) Effect on Prices

It is anticipated that demand-side restraint will result in a lower price level. The following explanation could be applied to this demand-driven price decline:

- ❖ **Consumer goods:** Prices are expected to fall only marginally due to moderation in demand as use of cards and cheques would compensate for some purchases.
- ❖ **Real Estate and Property:** Prices in this market are often predicted to decline, particularly for homes sold if the majority of the transaction is made in cash as opposed to through bank transfers or check transactions. In the medium run,

nevertheless, costs in this industry may recover a little bit when developers adjust their rates (probably charging more on cheque payment)

5) Effect on various economic entities

Certain segments of society may see short-term disruptions in the ease of their transactions as cash transactions decline in the short term, until the widespread distribution of the new notes.

These sections are agriculture and related sector, small traders, services sector, households, professionals like doctor, carpenter, utility service providers and retail outlets.

(6) Effect on digital payment

In just one week, an additional 1.2 crore Indians began using digital wallets. In comparison to the week before, the reach of mobile payments grew by 6%, reaching a record-breaking 70% during that week. Moreover, usage frequency increased by 15%. There are some 20 to 30 mobile payment / e-wallet companies in India the enrolment to them has leapfrogged post demonetization.

7) Effect on farmers

Demonetisation was implemented during the Rabi sowing season, which would make it extremely difficult for farmers to purchase seeds and plant, which would have an impact on food output. The statistics on the Rabi planting season is shown in the appended

table, and it shows that the area has actually expanded by roughly 9% this season. Had the commercial transactions at the rural levels been under any strain, there could not have been any rise in the sowing season.

8) Effect on Gross Domestic Product

There will be a "very significant adverse effect" of demonetisation on the GDP of the nation. It has expressed strong disapproval of the demonetisation decision and projected a 2% decline in the GDP of the nation as a result. When asked about the short-term effects of demonetisation on growth during a press conference on Wednesday, Finance Minister Arun Jaitley said that demonetisation will actually have a positive long-term effect on growth because more transactions that were taking place outside of the formal economy will enter the economy.

9) Elimination of fake and counterfeit currency

According to data from India Spend, only six out of every 250 instances of counterfeit money are reported. Based on that proportion, an estimated Rs 1.2 trillion worth of counterfeit money would have been eradicated. The entire amount of counterfeit and illegal money that would have been removed would have been Rs 4.7 trillion when added to the estimated 3.6 trillion in black money.

CONCLUSION

Demonetisation was primarily intended to reduce black money, tax collection, counterfeit money, digital payments, corruption, and the funding of terrorism. Only a portion of the objectives have been met. The attempt to reduce black money and halt counterfeit money was unsuccessful since a large amount of it was exchanged through several channels. After two years of demonetisation, the amount of counterfeit money has nearly returned to its pre-demonetization level.

