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**EVALUATION OF DEMONETIZATION AND ITS IMPACT ON INDIAN MARKET**

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**ABSTRACT**

On 8<sup>th</sup> nov, 2016 Sri PM Narendra Modi declared demonetization in India. Ban of 500, 1000 rupees notes from currency circulation, with the hope that we make “clean, cashless, corruption free and 100% digitalized India”, to support the policy of “Make in India”. 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. I.e. Withdrawal of banned currency from circulation or process of removing a currency from general usage. Sometimes, a country completely replaces the old currency with new currency.' Demonetization' there are multiple reasons why nations demonetize their local units of currency is to combat inflation , to combat corruption and crime (tax evasion),to discourage a cash-dependent economy and to facilitate trade to reaching effect on the economy development.

**KEY WORDS:** demonetization, corruption, digitalized India, currency, banking system.

**INTRODUCTION**

The term demonetization 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 demonetized in January 1946 and again in January 1978, according to RBI data. The common public and bankers are undoubtedly in hassles in the present scenario. Now the question arises that why was demonetization required to be done at this point of time. Here are certain points to clarify on the need of demonetization of currency to develop a good banking system. Blocking inflow of fake currency notes used for criminal activities including terrorist activities, destabilizing election campaigns being done through black money, destroying hoardings of public money by few influential people.

The Indian rupee (INR) is the official currency of the Republic of India. The rupee is subdivided into 100 paise (singular paisa), though as of 2011 only 50 paise coins are tender. The issuance of the currency is controlled by the India. The Reserve Bank manages currency in India and derives its role in currency management on the basis of the Reserve Bank of India Act, 1934. The rupee is named after the silver coin, rupiya, first issued by Sultan Sher Shah Suri in the 16th century and later continued by the Mughal Empire.

In 2010, a new symbol ‘₹’, was officially adopted. It was derived from the combination of the Devanagari consonant “र” (ra) and the Latin capital letter “R” without its vertical bar (similar to the R rotunda). The parallel lines at the top (with white space between them) are said to make an allusion to the tricolor Indian flag,[6] and also depict an equality sign that symbolizes the nation’s desire to reduce economic disparity.

The first series of coins with the new rupee symbol started in circulation on 8 July 2011. 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.

With the demonetization Positive Impact on Indian Economy is a big attack on Corrupt Practices, Counterfeit Currencies and terrorism, Banking System will improve, Reduction in Government Liability with the circulation of black money, Positive Impact on Government revenues it can attract FDI, Neutral impact on Inflation, Positive impact on Retail and real estate prices may reduce and Tax rate may come down in the mere future.

Negative Impacts may be Negative Impact on GDP in short run, highly negative impact on sectors with high proportion of cash transactions, Added replacement cost of currency and Initial hassle to create cashless society.

## REVIEW OF LITERATURE

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- Shashi. Tharoor (2016) "India's Demonetization Disaster", Modi stated goal was to make good on his campaign pledge to fight black money, the illicit proceeds of held as cash, tax evasion, crime & corruption.
- Dr Yogesh Pratap Singh on (2016) "Legitimacy of Demonetization," ,The Legitimacy of demonetization of high denomination bank notes is being interrogated in legal & political circles)To keep honesty alive and encourage tax payers to keep on paying taxes, Govt needs to give such chemotherapeutic treatment on regular and planned intervals .
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- Vishal Gupta (2016), "A short essay," article on Demonetization & its impact", the main objective of this move was to curb the black money, corruption and fake money menace.
- Varshith JR-USA. (2016), "Demonetization of Rs 500 and 1000 Currency ", a boon to common Indian citizens, what are the benefits from demonetization answers.
- Rhea Karuturi (2016)," India's demonetization and the future", The change was undertaken to tackle the problem of black money , terrorism and the informal economy that escapes taxation by bringing the cash holding of citizens into the banking system.
- Ramesh Thakure (2016), "Economic Political risks of India's demonetization", the goal is eradicate black money, counter Tax evasion and destroy counterfeit currency and become a digital India.
- Arun kumar (2016),"demonetization a foolish step the Poor will suffer the most", demonetization used largely is where currency has Totality cost its value, there the currency was abolished and new currency created. But India is not in that situation.
- Wade shepard Modi's (2017), After day 50- The results from India's Demonetization Campaign-demonetization Maneuvar was a" Shock Doctrine" tactic to dismantle the cash centric black market to clean the country of counterfeit notes , to further digitalize the economy.

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## NEED FOR THE STUDY

As Ambedkar ji suggested that demonetization should happen every 10-15 years. These are some benefits of demonetization which makes and prove that how necessary of this action is for any country economy. This step would abolish black money from the economy this will automatically leads to more amounts being deposited in banks is coming in to circulation. This still lead to higher tax collection, as people are clearing their long pending period bill, paying advance tax and thus utilizing their old currency. Small vendors who generally deal in cash would now start using cashless modes of transactions or digital methods. This step will act as a speed breaker for corruption. All of the above, demonetization will effect on total India market to become a cashless and digitalized INDIA.

## OBJECTIVES OF THE STUDY

- ❖ To study the effectiveness of the demonetization on public.
- ❖ To evaluate the demonetization effect on Indian market.
- ❖ To study the pros and cons of the demonetization on Indian market.
- ❖ To study the demonetization impact on general public.
- ❖ To study the demonetization effect to motivate people to become digital

## METHODOLOGY OF THE STUDY

The present study is an analytical and empirical one. The study used to the maximum extent the secondary data was formed from relevant research publications, books reports of government of India on Demonetization and selected sectors of Indian market.

## IMPACTS OF DEMONETIZATION ON INDIAN ECONOMY



Demonetization is a generations' memorable experience and is going to be one of the economic events of our time. Its impact is felt by every Indian citizen. Demonetization affects the economy through the liquidity side. Its effect will be a telling one because nearly 86% 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; 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. It 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.

#### FOLLOWING ARE THE MAIN IMPACTS

- ✓ Demonetization is not a big disaster like global banking sector crisis of 2007; but at the same time, it will act as a liquidity shock that disturbs economic activities.
- ✓ **Liquidity crunch (short term effect):** liquidity shock means people are not able to get sufficient volume of popular denomination especially Rs 500. This currency unit is the favourable denomination in daily life. It constituted to nearly 49% 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 presses can print only 2000 million units of RS 500 notes by the end of this year. Nearly 16000 mn Rs 500 notes were in circulation as on end March 2016. Some portion of this was filled by the new Rs 2000 notes. Towards end of March approximately 10000 mn units will be printed and replaced. All these indicate that currency crunch will be in our economy for the next four months.
- ✓ **Welfare loss for the currency using population:** Most active segments of the population who constitute the 'base of the pyramid' use currency to meet their transactions. The daily wage earners, other labourers, small traders etc. who reside out of the formal economy uses cash frequently. These sections will lose income in the absence of liquid cash. Cash stringency will compel firms to reduce labour cost and thus reduces income to the poor working class.
- ✓ **Consumption will be hit:** When liquidity shortage strikes, it is consumption that is going to be adversely affected first.  
Consumption ↓ → Production ↓ → Employment ↓ → Growth ↓ → Tax revenue ↓
- ✓ **Loss of Growth momentum-** India risks its position of being the fastest growing largest economy: reduced consumption, income, investment etc. may reduce India's GDP growth as the liquidity impact itself may last three -four months.
- ✓ **Impact on bank deposits and interest rate:** Deposit in the short term may rise, but in the long term, its effect will come down. The savings with the banks are actually liquid cash 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. It will be converted into active liquidity by the savers when full-fledged new currency supply takes place. This means that new savings with banks is only transitory or short-term deposit. It may be encashed by the savers at the appropriate time. It is not necessary that demonetization will produce big savings in the banking system in the medium term. Most of the savings are obtained by biggie public sector banks like the SBI. They may reduce interest rate in the short/medium term. But they can't follow it in the long term.
- ✓ **Impact on black money:** Only a small portion of black money is actually stored in the form of cash. Usually, black income is kept in the form of physical assets like gold, land, buildings etc. Hence the amount of black money countered by demonetization depends 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. Such a nationwide awareness and urge will encourage government to come out with even strong measures.
- ✓ **Impact on counterfeit currency:** the real impact will be on counterfeit/fake currency as its circulation will be checked after this exercise. Demonetization as a cleaning exercise may produce several good

things in the economy. At the same time, 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.

#### ADVANTAGES OF THE DEMONETIZATION

- ✚ Eradicate the use of fake currency.
- ✚ Tackle with corruption due to currency upholds.
- ✚ Withdrawal of old currency and bring unaccounted money back into the banking system by a considerable increase in bank deposits. With this the idle money becomes productive.
- ✚ Encourage digital payment modes to reach the target of a cashless society.
- ✚ Reduction of illegal activities.
- ✚ Reduced tax avoidance by encouraging higher tax payments.
- ✚ With a perfect implementation, demonetization policy can provide a great boost to any country's economy.

#### DISADVANTAGES OF THE DEMONETIZATION

- ✚ Inconvenience to the public.
- ✚ Huge economic cost to the nation.
- ✚ Disruption of business activities.
- ✚ Decrease in sales, particularly cash based sales.
- ✚ Labour / Wage payment issues.
- ✚ Additional printing and distribution cost of new currency.
- ✚ Many problematic situations for small-scale business operations.

#### CONCLUSION

Initially, it is very difficult to create cashless society as more than 50 percent of Indian population is not well versed with card transactions. The decision of this surgical strike on black money was not taken in a day or two. As it is said that Rome was not built in a day, this Rome (Plan) is the result of Prime Minister's never ending fight against corruption and indeed he has successfully made his right stroke at the right time. Further the penalty provisions are not enough to augment the problem of corruption to people. Despite of certain short term troubles, demonetization is certainly going to give a boost to the Indian economy in long run. India is certainly going to experience "Acche Din" in Modi's regime.

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