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DEMONETIZATION & ITS IMPACT ON INDIAN ECONOMY

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ABSTRACT

The Government claimed demonetization as an effort to curb the counterfeit of current banknotes purportedly used to fund terrorism as well to crack down the black money from the country. The main objective behind this move was to restrain smuggling, curb corruption and to reduce the use of drugs. In India about 80% of India's labour force is employed in informal sector consisting 45% of GDP of our country. As the economy is underbanked economy and where 60% of population falls in below international threshold line of 1.9\$ per day, this move caused a severe social experiment on the population. Initially and on short term, this move benefited the government which effectively tend to deploy its resources to permeate the impact to needy and poor people within the country. The paper reveals about the move of Demonetization taken by Government of India exploring its causes and impacts on sectors like E-wallet businesses, online retail stores, Automobile agencies, Micro businesses, and so on in India. The present paper highlights the consequences of this decision on various economic variables and entities and backed up with the benefits of this move.

KEYWORDS

blackmoney, demonetization, real estate sectors, trading.

INTRODUCTION

The Government of India announced a war against black money and corruption through Demonetization. In an emboldened move, P.M. Modi declared that Rs 500 and Rs 1000 currency notes will cease to be a legal tender from midnight 8th November 2016. The measure was taken in an attempt to address the resolve against black money, corruption, terrorism and counterfeit notes with an intention to discard black money and cleanse the formal economic system. The cause which impelled the Government to demonetize the currency is that the circulation was not in line with the economic growth of country. The data produced by the Finance Ministry, during 2011-2016 states variation in the money circulation and the economy growth. On 28th October 2016, in India total currency in circulation was Rs 17.77 lakh crore and the annual report(31st march 2016) of Reserve Bank of India stated total bank notes in circulation was Rs 16.42 lakh crore(in terms of value) of which about 86% was 500 and 1000 currency notes. This move was to eliminate fake currency and cash circulated in relation to corruption, to scoop out the black money from the economy estimated at about 5 lakh crore.

Demonetization is not a new concept, in the past also it has been adopted by countries like Zimbabwe (2015), North Korea (2010), Australia (1996) etc. as well as by India (1946), where in January 1000 and 10000 rupee notes were withdrawn and fresh currency of 1000, 5000 and 10000 rupees in 16 January 1954 were introduced in the economy. Then again on 16 January 1978 Janata Party Coalition Government had again demonetized notes of 1000, 5000, 10000 with an attempt to curtail forgery and black money from the economy.

OBJECTIVES

1. To analyze the current impact of demonetization on Indian economy.
2. To explore the benefits of demonetisation.

RESEARCH METHODOLOGY

TYPE OF DATA - The analysis of paper is completely based on the secondary data.

SOURCE OF DATA - The present study is based on secondary data and the sources of data include the facts by RBI and different websites.

LIMITATIONS - All the limitations of secondary data will be applicable for this study.

EFFECTS OF DEMONETIZATION

Demonetization's impact on different sectors in different ways proved to be boom for some sectors like E-Wallet businesses and somewhere resulting into temporary decline like micro businesses like small seasonal businesses, vegetable vendors, small grocery shops where transactions are completely done on cash basis. Some selected sectors which are major affected by demonetization are as:

1. **ON ECONOMY**
 - 1) Demonetizing of 500 and 1000 notes pushed Asia's third largest economy into liquidity crisis.
 - 2) Invalidating the currency led to cash crunch which ultimately result in GDP growth falling to 0.5% from 6.4%. The growth from October to December quarter it will show negative growth (as per reported by Ambit Capital, Mumbai based equity research firm)
2. **ON MICRO BUSINESS:** In India Micro small and Medium Enterprises sector contributes considerable share in India's GDP but medium sized enterprises have share of about 1 percent and in general use online mode for payments and receipts. And for the remaining two demonetizations has created a lot of problem as all the transaction were dependent on cash due to less technical know-how and less education amongst people.
3. **MICRO FINANCE INSTITUTION:** These are the bodies which facilitate with financial assistance to micro businesses and the demonetization led to a very slow disbursement rate. Demonetization resulted in delay in collection of instalments from the clients.
4. **ONLINE RETAIL STORES:** E-commerce sites like Snapdeal, Myntra, Amazon, Flipkart and others paused offering Services of Cash On Delivery and Redseer Management (Research firm) states that around 70% of orders in India are on Cash on Delivery basis which has a highly negative impact on volume of sales.
5. **E-WALLET FIRMS:** It stands for electronic wallet used to make electronic transactions like online booking, recharging phone, bill payments etc. The examples of E wallet are Freecharge, Paytm, Mobikwik etc.
6. **SUPPLY CHAIN:** The Businessmen have lack of funds overnight to carry on their trades as due to cash unavailability payment for transport of goods to market. Retailers cannot sell their commodities since customers are not having cash and can provide on credit only up to certain limit.
7. **REAL ESTATE & CONSTRUCTION:** The real estate company is conventionally involved a significant level of informal funding in form of cash transactions and demonetization measures leads to decreased informal funding sources, so having an adverse effect on real estate. As the transactions taking place in real estate business are done through cash and its unavailability will lead to decline investors with the insufficient audit and KYC funding procedures.
8. **AUTOMOBILE INDUSTRY:** Demonetization has an adverse effect in the automobile industry, especially for 2 wheeler and secondary automobiles and auto ancillary industries. As a result of reduced liquidity it becomes difficult for trade of secondary vehicles.
9. **EFFECT ON GDP:** Demonetization will lead to reduction in the consumption demand. However, demands on some goods may not be significant as some demands will be deferred and can be produced on availability of cash.
10. **EFFECT ON BANKS:** As per the directions of Government currency notes of 500 and 1000 were to be deposited and exchanged by the banks before 31st march 2016 which will ultimately lead to increase in CASA account and which can be used.

11. **FMCG PRODUCTS:** Consumer expenditures also affected by that decision now only those products are purchased which was necessary for daily consumption and mostly the small traders like kirana store', small bodies', thela wala' etc. they all have done their daily transactions only in cash and because consumer has less cash in his pockets the daily sells of these traders drop down by 20 to 30 %. It is also a short term impact in future things get normal.
12. **AGRICULTURE:** As farmers are totally dependent on cash, hence shortage of cash lead to delay in payment which in turn will affect related companies in short term. The sector is highly dependent on cash transactions and hence near term impact could be seen till liquidity infuses in rural areas.

BENEFITS OF DEMONETIZATION

1. **CONTRACTION OF CORRUPTION AND BLACK MONEY:** The demonetization will lead to erode black money as it is like an indentation on the wealth of small offenders like the government clerks and officers who are paid for every small piece of paperwork to get approved in our country. It is like a petty corruption which is an epidemic in Indian society. Another benefit of demonetization is to exercise control on pernicious practice of political parties of buying votes with cash handouts during elections in rural India. This is the area probably where Demonetization has its major impact in our economy.
2. **SHIFT TO ELECTRONIC CURRENCY:** Demonetization can act as a good tool to make the transition easier. The Government and its supporters are continuously touting the benefits of mobile money, and use of ATM's.
3. **TRANSPARENCY IN CASH ECONOMY:** The consistent problem arising in the economy is problem facing tax policy is that information on wealth of richest is sparse. If the Government's forensic attempt to investigate, then the pattern of deposits may provide the information about laundered money and the modes and channels through which black money gets operated.

CONCLUSION

The present study reveals the fact that impact of demonetization has been dominant in different sectors of Indian Economy. It draws out that the GDP of country decreases slightly as compared to previous year. Though Demonetization has some positive and some negative impacts on different sectors but in long run it definitely will have positive impact in curbing black money and fake money.

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