

## Issues & Challenges – Impact of Demonetizaion on Indian Economy

\*Vikram Singh

\*\*Suresh Choudhary

### ABSTRACT

The paper aims to explain meaning of demonetization, and its effect on the Indian economic as well as human life. India's Ministry of Finance claimed that 500 and 1,000 rupee notes are being used to finance terrorism, fund illegal drug sales, fuel the black market, fake notes, and pay bribes. It also highlights points like why it is done, what it affects in India, impact of it on social and environmental issues etc. the paper is explanatory paper. Main aim of the paper is to explain that, the decision of our great prime minister Mr. Narendra Modi was positive although it faces many challenges politically and socially, overall people are satisfied with his decision and help government to normalize the situation.

**Keywords: Demonetization, Black Money, Terror Fund**

### INTRODUCTION

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 Its effect will be a telling one because nearly 86% of currency value in circulation was withdrawn without replacing bulk of it.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.

### Objectives of paper:

To analyze the current the immediate impact of demonetization on Indian economy;

To Removing black money from currency.

To Stopping terror funds.

To Reducing fake notes.

### RESEARCH METHODOLOGY

**Type of Data:** The paper is based on secondary data.

**Source of Data:** The sources of data include the facts released by Reserve Bank of India (RBI), Exchange, Central statistics office India and Different banks websites.

**Reasons behind Demonetization:** As per my study Following is the main reasons behind Demonetization.

**Black Money:-** A recent study had pegged India's black market economy at over Rs 30 lakh crore or about 20 % of total GDP. This is even bigger than the GDP of countries like Thailand and Argentina. So now after this Decision black money holders are left with just two options – either route this money through banks, declaring it to be their income or burn the stashed file.

**Fake Currency & Terrorism:** - –Terrorism is a frightening thing. But have you ever thought about how these terrorists get their money? Enemies from across the border have run their operations using fake currency notes. This has been going on for years.||

**Economy:-** The Major impact of this decision is on the economy because it gives highly positive impact on the economic Stability in near future. The coming six to seven months are expected to witness a considerable level of deflation. Sectors like real estate, construction material, Gold, unorganized trade and services will see significant pain in the near time.

**Election:** - We all know how much black money is used by political parties. It will be a very tough task to use trucks of money at least for the upcoming five state elections. Now in upcoming UP election which was held in January neither of the parties can purchase the vote of poor people and Some drastic change in the elections going to be seen by everyone.

#### **Impact of Demonetization Issues & Challenges:**

1. **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 take 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.
2. **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 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. such a nationwide awareness and urge will encourage government to come out with even strong measures.
3. **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.

4. 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.
5. **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 press can print only 2000 million units of RS 500 notes by the end of this year. Nearly 16000 mnRs 500 notes were in circulation as on end March 2016. 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.

6. **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 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. There will be a trickle up effect of the liquidity chaos to the higher income people with time.
7. **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 ↓
8. **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.
9. **Impact of demonetization in India Society-**There is a great impact of demonetization in the Indian society and economy. And most important is that people will have lower expenditure power and they cannot purchase luxurious things. Expenditure on marriage and other celebration decreases. Indian economy will see a big boom and booming real assets sector shall fall on the fround. The things become cheaper and Indian currency shall get respect in the international market. Innovative publication and corruption are down to a considerable extent. Thus it will bridge a gap between haves and have notes.

#### Issues of Demonetization

1. Bring our Black money
2. Abolition of Fake money
3. Control the Inflation
4. Reduce the Rate of Interest
5. Make it Digital India through E-transactions
6. Transparent money transaction
7. Increase the Tax Revenue

#### Challenges of Demonetization

1. No clear concept of Indian money from Foreign Bank
2. Highly affected by the savings economy
3. No clear idea about money withdrawals
4. To curb small business sectors
5. Low transaction by poor, middle and neo middle class people.
6. There is no daily wages work in all sectors of Indian economy.
7. No permanent and alternative solution of demonetization.
8. More roles for commission agents to exchange old and new currencies.
9. Lack of New Five hundred rupees currencies
10. Tribal and hill area people were highly affected for transaction.
11. No clear idea about Participatory Notes.

## CONCLUSION

If the money disappears, as some hoarders would not like to be seen with their cash pile, the economy will not benefit. On the other hand if the money finds its way in the economy it could have a meaningful impact. However experiences from different countries shows that the move was one of the series that failed to fix a debt-burdened and inflation-ridden economy.

The above decision in on the recent decision of our prime minister Mr. Narendra Modi on demonetization of Rs. 500/- and Rs. 1000/- notes. This decision is not new it has done before in 1946 and 1978. Other countries like Europe, Germany, France and Italy demonetize their currency in the past. Various definition have declared that demonetization is just to eradicate black money from the economy. This also reduces terror funds and fake notes. More Indian transactions are done in cash, although cash transaction are not bad but it destroy economy. This decision also helps to encourage projects like digital India or case less India. It is also found that although many inconveniences people do not criticized government decision. This affects adversely to the daily wages worker and small business. But all most people stand by the government decision. It is also found that people who own black money find various method to convert this money into white. And at last but not least as „every coin has two sides” this decision also do have their own positive and negative impact. So the paper concluded by identifying various pros and cons of demonetization.

**\*Research Scholar, Department of Economic Administration & Financial Management (EAFM), Faculty of Commerce, University of Rajasthan, Jaipur, Rajasthan, India.**

**\*\*Research Scholar, Department of Business Administration (BADM), Faculty of Commerce, University of Rajasthan, Jaipur, Rajasthan, India.**

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