



IMPACT OF DEMONETIZATION ON INDIAN ECONOMY: A CRITICAL STUDY

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Abstract

500 and 1,000 Indian Rupee banknotes were out of circulation at 8 pm on November 8, 2016. Demonetization is the withdrawal or transfer of a specific type of money from the stream. An unexpected decision taken by the chief executive affected India's cash share. Strictly speaking, it affected the pace of economic development. This affects the buying behavior of customers and other households of the population and network companies. When we come to know that because of this activity, India is facing significant problems. It is therefore important to examine the impact of demonetization on the economy and, to an even greater extent, on general transparency. But the prime minister emphasizes and promotes the state of online business. But most of the people in India are rural and cannot pursue the latest innovation due to their backwardness or low salary or do not have proper education about innovation. In this context, the main point of the review is to understand the positive and negative outlook on the economy and people after demonetization.

1. Introduction

Demonetization is the process of removing currency from public use or circulation, which is known as demonetization. The central government demonetized India's 500 and 1000 rupee banknotes on November 8, 2016. Indian economy is cash-based, where 90% of the transactions are done in cash only. The latest sudden decision to demonetize Rs 500 and Rs 1,000 notes in India is not new. 1,000 rupee banknotes and higher denominations were demonetized in January 1946 and again in 1978, High denomination banknotes. The Reserve Bank of India printed 10,000 in 1938 and again in 1954. According to RBI data, these banknotes were reintroduced in January 1946 and again in January 1978. To check the existence of lurking black money, corruption, and counterfeiting, the Government of India announced on November 8, 2016, that demonetized notes were of the higher nominal value of Rs 500 and Rs 1,000. The recently redesigned notes of Rs 500 and Rs 2,000 are in circulation from November 10 to November 10, 2016.

The impact of demonetization on different industries will vary and depend on supply and demand. Industries with more cash-dependent operations suffered more losses than industries with less cash-reliance. Some researchers also claim that the effect of demonetization is temporary; It will reverse when normalcy is reached. The stock market is a good indicator of how investor sentiment across sectors has fared over the period. The ideal indicator to analyze the impacts would be the financial results of companies in all sectors, as changes in sales and profits can be interpreted based on how the sectors were affected. However, this information about the company will not be available in the market until after the publication of the third-quarter results. Fluctuations in stock prices can indicate bullish sentiments, which will certainly be influenced by many other factors like company-specific developments, industry-related issues, etc. However, it can be used to indicate how sectors should be affected by demonetization.

Since November, there have not been eight major industry events that could dictate stock prices. Inflation remained stable, and RBI's policy remained unchanged. The rupee has depreciated, but more so because of the strengthening of the dollar. Inflows from foreign portfolio investors turned negative during this period, and the equity and debt segments reported net outflows. In this study, the author has



tried to analyze the impact of demonetization on the stock market. For the same, one study took the S&P BSE 100 index and used the event study method. The only major event taken into account for the study is the day demonetization was announced, November 8, 2016. And the effect of demonetization was seen from October 30, 2016, to November 21, 2016.

2. Literature Review:

Shanbhog Girish, Kumar, A. Prashant, Bhat, Swati, and Shettigar, Chetan (2016) defined a currency embargo as a measure to prevent the alleged use of counterfeit notes to finance terrorism as well as to prevent surgical strikes on black money. And corruption in the country. Demonetization leads to a cash crunch in the country, which hurts many small businesses, agriculture, and transport. The paucity of money created chaos, and most people found it difficult to change their bills due to long queues outside banks and ATMs across the country. This demonetization move proved to be the biggest attack on black money and corruption in the history of the Indian economy and a step towards digitization. It also encourages digital payments. They conclude that demonetization is beneficial in the short, medium, and long term.

Muthulakshmi, E. Kamachi (2017), in his article titled "Impacts of Demonetization on the Indian Economy: Issues and Challenges," states that when money is withdrawn from the economy, the country will not benefit in the short run. On the other hand, if money finds its way into the economy, it will have a positive and significant impact. They also claim that the demonetization movement, on the one hand, was a serious attack on black money, corruption, hawala transactions, counterfeiting, and terrorism financing. On the other hand, it harmed various sectors like raw materials and real estate.

Shah, Ayash Yusuf (2017) stated that demonetization is one of the main steps in the fight against corruption, black money, and terrorist financing. However, this decision was taken without preparation and harmed the public. Without enough new tickets being printed, 86% of tickets were withdrawn, affecting all market transactions. Only the common people had trouble exchanging notes, not those he spoke to. Intending to free the country from black money and weeding out the taxpayers and black money holders, the government has taken the initiative of demonetizing 500 and 1000 rupee notes. The sudden announcement of demonetization and lack of proper planning created panic among the public. Common people find it difficult to shop without cash. Wasting time in endless queues could have been easily avoided by planning.

Veer Kumar K. (2017) claims that the government's announcement of demonetization of Rs 500 and Rs 1000 notes is a major setback for Indian citizens. High denomination banknotes are removed from the economy to combat the problem of tax evasion, counterfeit currency, and terrorist financing. This shows that a lot of money has been deposited in the bank accounts, which is more than the prescribed limit and is subject to penalties and taxes. The use of e-wallets, debit, and credit cards has increased dramatically, leading to better cashless infrastructure.

Abhani stream K. (2017) believes this demonetization is more effective than the previous two. Time Change. People use internet banking as a payment method. Bank employees make every effort to make demonetization a success. Your support matters a lot. Though the demonetization movement has failed to capture all the black money in the economy, it has at least instilled fear among those with black money. He concluded that demonetization was an essential step to solving the black money problem, terrorism, corruption, etc.



Shukla, Bal Govind and Gupta, Hariom (2018) in their article "An Exploratory Study of Business Students' Perspectives on Demonetization in India: With Special Reference to the City of Allahabad." He used primary data for his study and concluded that people actively support all the initiatives taken by the government, which means eradicating corruption, black money, and other threats like terrorism and Naxalism in the country.

3. Significance of Demonetization

Why has demonetization suddenly become important? Black money, terrorist activities, and other illegal activities were believed to have been spread using these two demonetized notes.

Statistics show that between 2011 and 2016, when the economy grew by 30%, the circulation of Rs 500 and Rs 1,000 grew by 76% and 109%, respectively, reflecting the popularity of these banknotes for shamanic activities. Indians also found it better to use cash for transactions of 98 percent in value and 68 percent in volume (Das, 2016).

Finance Minister Arun Jaitley reiterated that with demonetization, there would be a further reduction in cash used for corruption, terrorism, and tax evasion (ET, 12/14/16). Rogoff (2016) made a similar observation in his book "The Cash Curse" and said that criminal activities such as corruption, tax evasion, sponsoring terrorism, counterfeiting, and human trafficking are evils of higher cults and statuses. Illness as the "curse of money."

4. Reasons for demonetization:

a. Black Money:

Demonetization was a bold and revolutionary step taken by the Government of India to fight black money and will have a profound impact on the country's underground economy. People with pockets and black money can be identified through this movement. Companies such as real estate agents, jewelers, brokers, and private lenders usually have large amounts of unreported money in the form of banknotes. This unregistered money had created a parallel economy in the country. This illegal money has reached the bank accounts through direct or indirect means.

b. To hit the fake currency rackets:

Fake notes were ruined through demonetization. Withdrawal of high banknotes from the economy will seriously impact the counterfeit money syndicate, thus curbing the financing of terrorism in the states affected by Jammu and Kashmir, Naxalites, and northern states. Counterfeit coins were worthless with gangsters and new high-security notes, Making a fake impossible. Demonetization was a surgical attack on counterfeit money running in the economy. Demonetization has converted these fake notes into plain paper.

c. Online transactions:

The slogan of demonetization was to encourage a digital/cashless economy. More and more cashless or cashless transactions will lead to more revenue recognition, increasing direct taxes collection. The demand for alternative payment methods will increase rapidly with the decrease in cash transactions. Electronic payment methods like online transactions, payments through apps, e-wallets, internet bank payments, and the use of credit cards will undoubtedly experience a significant increase in demand.



d. To hit Maoists

This movie made the money of the Maoists useless. As reported, the Maoists carried nuclei worth over Rs 7000 with them in Bastar, Chhattisgarh. All money is just pieces of paper.

e. The rise in GDP

Although sectors such as real estate and real estate, construction, and household consumption, in general, have been negatively impacted, the long-term gains to GDP growth are expected to outweigh the long-term effects of the transition. , We are moving towards 9% GDP growth for the financial year 2018-19.

5. Sector-wise impact of demonetization

a. Real estate and Property

This area will be one of the most affected by the ticket ban. Demonetization has put an end to the operations of most builders, as a significant portion of their transactions depend on cash rather than bank transfer or check transactions. Like other sectors, marginal builders are negatively affected due to the high cash component in payments in this sector. The unorganized builders have been hit the hardest. To attract buyers, builders will face a cash crunch due to unexpected sales drops; Builders need to offer attractive deals and other benefits. Depreciation will directly impact resale and the land segment, where cash plays a significant role in these transactions. Much of the cash that was left was removed by demonetizing the system. Gems & Jewellery:

A significant portion of paying customers includes money to buy jewelry, so the impact of demonetization in this industry is enormous. Demonetization meant that people had less money to meet their daily needs and less to buy jewellery. Small retailers in the unorganized sector have been hit the hardest, reducing the demand for jewellery. Many jewelers started selling gold above the market value to take advantage of the banned banknotes, leading to tax evasion against the said jewelers. Notices were also sent to several jewellers. This sector is badly affected by demonetization; buyers prefer to pay in cash.

b. Bank

Banks have proved to be the backbone of this entire demonetization process and even the biggest beneficiaries. As far as the direction of the Government is concerned, the old notes should be replaced with new notes; This resulted in a huge liquidity position for the banks which could be used for lending. Many banks have reduced deposit and lending rates.

c. Media and Entertainment Industry:

The exchange ban harmed the media and entertainment industry as it reduced viewership. The biggest decline was seen in the lower middle class. The sudden demonetization decision had an impact on the film industry as well. This stopped film production. Moreover, this sector's new and small players are the most affected by demonetization.

d. Hospitality and Tourism:

Due to demonetization, India's tourism industry has been badly hit as most of the expenditure is cash. Most of the luxury foreign trips sponsored by black money have been stopped. Local tourism will also be affected by the cash crunch. The unorganized sector is most affected by the inability to make cash payments. Apart from this, The slowdown also affects the catering companies in the event of insufficient liquidity.



e. Luxury items

Demonetization will have a huge impact on this sector. Most people spend their unregistered money on luxuries. After the ticket ban, the luxury segment and allied businesses such as clothing, electronics, and luxury cars will get a major setback.

f. Automobiles

Demonetization has affected the automotive industry as well. The biggest drop in demand was seen in the two-wheeler segment compared to the four-wheeler/luxury car segment, as buyers prefer to pay cash for purchasing two-wheelers. The used car industry is another segment affected by demonetization, with many dealers reporting a sudden drop in sales. In this industry, payments are not regulated.

g. Retail

Lack of cash reduces consumer demand for the products. Ultimately, this leads to a decrease in sales volume. Because cash is a favorable payment method for daily necessities purchases, which in turn increases the number of cash transactions. The impact of demonetization is more on the unorganized small traders than the organized sector.

h. Agriculture

Many factors affect agriculture, such as sales, distribution, marketing, and transportation, primarily due to cash flow. Moreover, demonetization has disrupted the supply chain; The sector has been badly affected by the huge wastage of perishable products. Demonetization has also been affected by wholesale centers, mandis, and smallholders who sell their products daily to consumers.

i. Labour intensive sector

The daily wage laborers need a lot of money; they find it difficult to buy their daily necessities. Bank withdrawal limits affect weekly payments to contract workers in the mining, textile, and leather industries. In addition, restrictions on cash withdrawals affect the daily needs of factory owners. This harms supply and production in the region. However, the situation will improve once cash flows return to normal.

6. Conclusion

The government decided to demonetize the old currency and replace it with a shocking new country. The move aims to address illicit money, corruption, terrorist financing, and counterfeit currency. The move to demonetize the old currency has been seen in the history of the Indian economy as a surgical strike on undeclared money. It could be a step towards a cashless economy. After demonetization, the country has been hit by a liquidity crisis, with banks and ATMs running out of cash across the country, which has harmed various small businesses, agriculture, and transport. The Indian government's currency ban caused short-term chaos, as most people with old notes found it difficult to exchange them in long queues outside banks and ATMs across India. The total value of old notes in circulation was Rs 14.2 trillion, which was about 86% of the total value in circulation. Black money was reported by paying high taxes and fines or reaching bank accounts through direct or indirect channels. The depreciation will positively impact the Indian economy as it encourages digital payment methods like e-wallets and apps, online transactions through e-banks, plastic money, etc. Depreciation is beneficial to the economy in the medium and long term.



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