



DEMONETISATION – POSITIVES & NEGATIVES

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ABSTRACT

On 8th November 2016, Government of India took a great decision to eradicate black economy. India has the higher currency level with 7% GDP during Demonetization period and it slowed down to 6.1% .this study help us to know about the positive and negative impressions on demonetization. Demonetization is a generation’s memorable experience and is going to be one of the economic events of our time. It impacted various sectors in the economy .This made a major impact in internet transactions. It leads to great increase of internet Transaction from 671.49 million transactions in November to 957.50 million transactions in December. This paper is completely based on the secondary data.

Keywords: Black money, Demonetization, Transparent, Transaction, Economy.

INTRODUCTION

The government executed major change in the economic environment by removing the currency notes – of Rs 500 and Rs 1000 denomination. These act made as a legal amendment on 8th November 2016. People have been given up to December 30, 2016 to exchange the notes on banks. The proposal by the government involves the elimination of these existing notes from circulation and a gradually replacing with new notes. In the short term, it is intended that the cash in circulation would be compressed since there are limits placed on the amount that individuals can withdraw. In the subsequent months, this limit relaxed somewhat. The reasons offered for demonetization are two-fold: one, to control illegal fund transfer by terrorists, in other words a national security

concern and second, to completely or destroy the “black economy”.

First demonetization was in 1946 to penalize the people. Last demonetization is done in 1978 and during that time the bank was only way to make all kind of transactions but now we are well developed with technology to support the cash and cashless transactions. Government encouraging online banking online shopping is e-wallet, mobile banking, and credit and debit cards by introducing many amendments on cyber space for safe transactions. The intention behind demonetization was to control the black money under to increase e-transaction in the country.

OBJECTIVES OF DEMONETISATION

- 1) To know about actual present outcomes of the note banned decision.
- 2) To know the impact of note ban decision on the Indian economy.
- 3) To study the experience of impact of demonetization in various countries in past years;
- 4) To work out the probable consequences of the demonetization.

IMPACT OF DEMONETISATION

Impact on it Sector: After the implementation of demonetization it drastically affected the industrial sector .it affected IT sectors which is 40% of India’s gross domestic product and where the major population employment of India depends on IT sector.

Impact of Demonetization on FMCG Industry: FMCG Industry met up with the great loss.1-2% of sale affected compared to previous month of demonetization. The sale of items like toilet soaps, shampoo, washing bars and other

personal care items had a great fall by retailers. Because of demonetization people started reducing their spending by 50%. They had cut spends across categories such as biscuits and other snacks items.

Impact on Currency Using Population: The major active segments of population are daily wage earners, small traders. They use only currency to meet up their transactions. It made labours, daily wagers to lose income because of unavailability of liquid cash. As there was improper money flow in the system it compelled the firms to reduce the labour wages. It reduced the income of the people in the base of the pyramid.

Impact on Bank Deposits and Interest Rate: Deposit of money in the banks increased in short term, but in the long term, its effect came down. The savings in 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 for conversion of old notes into new notes. These are not voluntary savings to get high interest. It is being converted into active liquidity by the savers when full-fledged new currency supply took place. This says that new savings with banks is only short-term deposit. It is the action by savers for converting old notes into new notes at the same time period. It does not mean that demonetization will produce big savings in the banks in the medium term. Most of the savings are obtained only by public sector banks like the SBI. They may reduce interest rate in the short term. But they can't follow it in the long term.

Impact on Black Money: Only a very minimum portion of black money is actually stored in the form of cash. Actually the black money is kept in the form of assets like gold, land, buildings etc. so the amount of black money recovered by demonetization depend upon the amount of black money held in the form of cash and it will be smaller than expected. Only 12% of black money was recovered by demonetization 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.

Positive Effects of Demonetization

Prime Minister Modi introduced demonetization for the larger benefit of the nation, though there were some difficulties for people it was blown out soon. And now it helped in nation building, Lets discuss its many-fold impacts.

Black Money: At one stroke stacked black money inside the country was blown out by modi's demonetization. As per the survey Rs 17 lakh crore of total currency was in circulation in the country, in that black money is estimated Rs 3 lakh crore. Black money is nothing but a lot of the nation. Black money operators run an underground economy which shakes the foundation of the economy. With Modi's demonetization move, all domestic black money was stripped by deposits into the banks with heavy penalty

Economy: Demonetization was a huge force able effect on the Indian economy. The removal of illegal cash helped to turn around the economy. It bought an increase in India's gross domestic product (GDP). Second, it helps to stimulate investment opportunities and gave strength to infrastructure and the manufacturing sector. Third, it helps in reducing interest rates and lower income tax rate.

Hawala Transactions: Demonetization has disabled the hawala transactions. Hawala route is to make easy the illegal transactions money and terrorist transactions. As because of demonetization the black money that are in liquid form was wiped out of the market and so the hawala operations were halted. Many hawala operators fired the currency notes as the notes are stripped out the system. Hawala rackets run again on black money. With black money suddenly being wiped out of the market. About the 1000 crores and above of old notes were destroyed.

Terror Financing: The terror financing is routing the fake circulation of money into the system. The fake currencies used in transactions of illegal drugs and illegal weapons this money are used as major fund by the terrorists by routing money through hawala transactions. By stripping out of old currencies out of the systems.

The hawala transactions were reduced. These changes were attained by demonetization.

The Short-Term Impacts: As there was an improper flow of liquid cash households are affected. Commodity transactions and general cash market transactions are the short term impact. Small trade market activities, was remained uneasy in the short-term. As Roadside sellers, taxies, and other public transport suddenly stopped accepting Rs 500 and Rs 1,000 notes. People suffered lot. It is important to note that the maximum percentage of people is daily wage earners it adversely affected them. There was a negative GDP impact on the quarter survey after implementing demonetization.

According to the survey by RBI on October 28th, 2016 the total rupee notes in India was 17.77 trillion but on March 31st 2016 there was only 16.42 trillion. In that 86% of notes are 500 and 1000 rupee notes and remaining 14% only 10,100 and 50 rupees notes. As by the demonetization the significant amount of cash was stripped out of the system if caused a severe effect on the money supply on the economy. It adversely affected the income of the daily wage earners and roadside vendors. People who are illiterate and have no access to the banks are affected lot. As the maximum small trade sectors are working with the cash the investment and consumption of raw materials are affected and so the entire production got a down fall on the industrial sectors .it mainly affected the items like fruits, vegetables and other perishables.

It made the retailers and agents to get the goods on credit for flow of the business. This alternative made a continuous flow on the market. And on other side the people compressed their demand on products. Goods and services which have got an access to digital medium are unaffected and rest of the sector is severely affected. Another sector where one expects to see effects in the very short run is the real estate space. The average sales were reduced drastically during November-December months by 40% and 49% respectively. 50% of the total sales in the third quarter contributed by October month.

The Longer-Term Implications: This brought a real change in pattern of the real and financial economy. Initially, there was some disturbance and confusion felt by the lower and upper income classes. After the awareness spread among people that this effect was to remove the black economy and terror financing it was brought into regularity. As this move by the government was not be a first, having being tried by earlier governments as a tool to fight corruption. And Finance Minister Mr. Arun Jaitely said that the Demonetization and GST together helps in building strengthened economy in future.

CONCLUSION:

Demonetization was affected mainly social sector and got worst causes on poor and the common people. The Prime Minister Modi encouraging doing financial transactions using mobile and other electronic means. It is clearly gives a display that India is moving towards digital economy. However the India is slowly recovering from the causes of demonetization it is still difficult for people in rural areas. Educating illiterate people for using digital transactions is the great challenge.

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