

Post Impact of Demonetization Indian Economy

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Abstract:

The effects of demonetization on the Indian economy have been enormous. In this study, we have investigated what causes and effects impact of demonetization on India's economy and population. We have gathered and compared data from around 150 different persons for this study. The residents of the Vellore district in Tamil Nadu state, India, were selected at random for participation in the study. Our research led us to conclude that people's perceptions of whether or not demonetization was implemented correctly are most strongly correlated with their level of education and employment, and that employment is the most important factor affecting the economy and having a significant impact on demonetization. Many also believed that the elimination of black money was the most significant reason for the government to implement demonetization after the fight against terrorism and corruption.

Key Words: Demonetization, black money, corruption, correlation, Indian economy, impact on Indian economy

Introduction

Our country's Prime Minister Narendra Modi announced the demonetization of the Rs 500 and Rs 1000 notes that were in circulation last November. He declared that as of midnight, these notes would no longer be recognized as legal tender everywhere in the nation and would be considered worthless scraps of paper. This was done to combat the growing incidence of tax evasion and corruption in India. The most significant action to combat tax evasion was the decision to devalue currency. In this procedure, all outstanding banknotes in circulation are rendered null and void, and new banknotes are issued in their place. This is done because there

are likely several individuals inside the nation who are hoarding cash in an effort to evade taxation. So, it is used to get the money back into the economy's general circulation. Partial currency changes, such as the elimination of R.s. 500 notes but not the whole currency, are possible while implementing demonetization. Demonetization: What Is It The process of demonetization reduces the value of a currency unit to zero. Akin to turning paper money into worthless cash since its value has been reduced to nothing. To "demonetize" a currency is to remove its status as legal tender. Demonetisation refers to the process through which a currency's existing form is withdrawn from circulation. It's an economic event in which a country's currency unit becomes worthless as a medium of exchange. In common parlance, banknotes and coins are examples of monetary units. When a country's currency is demonetised, it becomes effectively worthless and cannot be used for ordinary transactions. Currency is regularly replaced with brand-new bills and coins. Sometimes, a country may totally replace one kind of money with another. When a country devalues its currency, this process is known as "demonetization." On November 8, 2016, Demonetisation was declared in India by the Honourable Prime Minister Narendra Modi, when the Rs 500 and Rs 1000 notes were removed from circulation.

II. Review of Literature

Katke et al (2015) the effects of demonetisation on the Indian car industry were investigated. Just two aspects of demonetisation's effect on automobile sales and purchaser behavior were examined in the research. He looked primarily at the immediate effects of his method. The research found that people's socioeconomic status affected their decision to buy a vehicle, and that demonetisation caused not just financial hardship but also widespread anxiety. The survey also found that poor commuting infrastructure in many areas makes owning a vehicle a necessity for Indians.

Undale and Gaggad (2016) examined the results of demonetisation precisely one month after it had taken place. The study used a quantitative research strategy by creating a structured questionnaire and polling participants. Differences in attitudes regarding demonetisation were also analyzed by gender, socioeconomic status, and level of education. People of all ages, all sexes, and all socioeconomic backgrounds backed the demonetisation, the research found.

According to the research, the decision had a significant negative impact on hourly wage earners.

Kaur (2017) investigated how the demonetisation affected the card payment system. The research relies on already published literature and other secondary sources. The research found that as the economy becomes more globalized and the financial sector expands, an increasing number of individuals are switching from using cash to using cashless transaction systems.

Chowdhry (2017) looked at how the economy has fared after the demonetisation. Credit expansion, SLR protection, currency circulation, and deposit expansion were the primary areas of inquiry. The effects of demonetisation on the RBI's balance sheet and on several economic sectors were also determined.

Based on the findings of the study report co-authored by Arpit Guru and Shruti Kahanijow. They have done the math on the black money income, done the research on why we need to change DTAA and ITEA, and come to the conclusion that there is a lot of it hidden all over India, and that most of it is in foreign banks. They have also looked into the origins and effects of black money, finding that it has wreaked havoc on our economy and currency.

A study of the existence of a parallel economy in our nation was conducted by Sukanta Sarkar in her research paper and other work completed in 2010.

Throughout her study, she examined the phenomenon's origins and its consequences. She has also centered her attention on government efforts and initiatives in determining the cause and impact of black money in India. According to the findings of her investigation into his activities, the Indian political system is the primary cause of the growth of illegal funds in India. She reasoned that rather than focusing on how to effectively administer the legislation and the battle against black money, the administration was preoccupied with the question of how to establish a separate committee.

The Tax Research Team, which was established in 2016, did a study, and concluded that demonetization was a worthwhile cause and backed the purpose for carrying it out. Research has revealed and indicated the influence of demonetization on our economy and other elements,

such as the presence and availability of credit with people and the amount of spending the money on the activities conducted by them, which was the primary goal of their article.

Background of Demonetization In India

India's currency has been demonetized twice previously, both times with mixed results. The first occurred on 12th January 1946, 1.5 years before Independence, when Rs. 1000, Rs. 5000, and Rs. 10000 notes were removed from circulation. The Indian Reserve Bank (RBI) issued its first Rs. 10,000 note in 1938, making it the country's biggest denomination banknote to date. But, in 1954, the Rs. 1000, Rs. 5000, and Rs. 10,000 notes were all once again released. The second round of demonetization took place on January 16, 1978, when an edict was passed to eliminate Rs. 1000, Rs. 5000, and Rs. 10,000 banknotes. The Direct Tax Inquiry Committee noted in its initial report that although demonetization was attempted on January 12th, 1946, it was unsuccessful since only a tiny fraction of the notes in circulation were demonetized that year (worth around Rs. 1,235.93 crores). Demonetization of large bills began on January 16, 1978. At of that day, the high demonetization notes totaled Rs. 146 crore, and as of August 1981, the total notes presented to RBI amounted to Rs. 125 crore.

Positive & Negative Impact of Demonetization:-

Every sector of the Indian economy saw the effects of demonetisation. The lack of communication has had a profound effect on people's daily routines. The rapid drop in the money supply has caused hardship for many individuals. Moreover, this choice severely impacted cash-based industries like MSME, contributing to their decline and the overall decline in the stock market.

The following are some of the most notable areas where demonetisation has had an effect:
Economic Impact: Short-term economic growth was stunted by the abrupt depletion of the money supply and the concomitant growth of bank deposits. Because of this and the potential negative effects on the real estate and informal industries, GDP growth might be reduced. (supported by data from 2016)
Bank Impact: At that time, the government ordered that all 500 and 1000 Rupee notes be deposited or exchanged at financial institutions (subject to certain limits). More money would flow into commercial banks' savings and checking accounts as a

direct result. This would improve the banks' liquidity, which might then be put to use in more lending. (supported by data from 2016) Consequences for the Black Market These denominations account for around 86% of all cash in circulation. Its intended effects included the temporary cessation of the circulation of huge quantities of counterfeit currency, the reduction of funding for pro elements like attempting to smuggle, terrorism, espionage, etc., and the elimination of black money from the economy because its holders would be unable to deposit the identical amounts in banks. (supported by data from 2016)

Effect on ATM Withdrawals: At the beginning, the daily withdrawal limit for ATMs that had not been recalibrated was Rs 2,000, whereas the limit for recalibrated ATMs was Rs 2,500. (supported by data from 2016)

Impact on Black Money and Corruption: Money that has not been taxed by the government is known as "black money" or "dirty money," and it disappears during the country's tax assessment period, costing the government money. It has been stated that the government's demonetization efforts would assist reduce the amount of black money in circulation. If black money is eliminated from the economy, corruption will naturally decrease as a byproduct.

AUTO & AUTO ANCILLARY: Effects not desirable. Passenger cars will feel the effects of postponed purchases in the near term, but demand will pick up speed in the middle to long term. Tractor demand is expected to be significantly affected, and the potential for over-invoicing due to dubious trade practices is expected to reduce. Significant effect on two-wheeler sales because of the prevalence of cash payments in rural areas. Second-hand truck sales, which accounted for a larger share of cash transactions, will fall as a result of the drop in sales of commercial vehicles (both number of transaction and pricing)

CONSUMPTION: Having no effect Consumer staples: organised retail profited from demonetisation, while the local market for counterfeit products was hampered as a result. Sales of consumer durables have picked up somewhat thanks to the rise of online shopping, but they are likely to be restricted in the medium term, particularly by purchases made via unorganized channels like cash.

BANKING: Somewhat Good Effect More people are putting their savings in banks, resulting in a high CASA ratio (lower cost of funds). High profits for the Treasury Department as a consequence of low bond rates (particularly PSU Banks). Removal of bigger denomination banknotes from circulation by the government would cause a rush of deposits, helping banks to gradually reduce interest rates and debt servicing expenses. The credit deposits ratio for banks grew unfavorable as a result of a sudden influx of deposits and a scarcity of lending options, having a negative effect on margin.

HOSPITALITY AND TOURISM: Affects Unfavorably The advent of online forex and the promotion of plastic money (forex travel cards) as an alternative to online or electronic payments has been a boon for firms like BookMyForex, who operate as online forex marketplaces. Hotels saw a decline in demand as domestic tourism and business travel slowed, while inbound tourism was unaffected.

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REAL ESTATE: Affects Unfavorably The real estate industry has been devastated by demonetisation, which will lead to a decline of 50 percent that will last for another 5 to 6 months. While this has a negative effect in the near term, experts are optimistic that future rate cuts will increase sales. Long-term, the Real Estate industry will be transformed by the combination of demonetisation, the Real Estate Regulatory Act, the Benami Act, and the Goods and Services Tax. More openness, boosted investor confidence, easier access to capital, and more foreign direct investment (FDI) are among the most anticipated favorable outcomes. Costlier registration generates more money for the government.

Some Impressive Statistics Post Demonetization on Retail Sector

It is projected that by 2025, 15% of India's retail market would come from the organized retail sector, which now accounts for between 3% and 5% of the market. The latest declaration of

demonetization serves to expand the usage of digital transactions which will enable the organised retail sector reach 20% of the overall retail business in India by year 2025. By 2020, analysts predict that Reliance Retail will have become India's undisputed retail leader. A year before demonetization impact is that the mobile payment user base in India has already overtaken the total number of credit cards. (As of November 2015, there were 135 million mobile wallet users and just 22 million credit card users in India, according to figures from the Reserve Bank of India.) The Growth of Electronic Payments - Big Bazaar has said that all of its locations would accept Debit/ATM cards for cash withdrawals up to Rs 2000. In the instance of Big Bazaar/Future Retail, debit card use has reached between 55 and 60 percent of total purchases. Even at the smallest kirana businesses, Axis Bank has started installing POS equipment, and they are seeing an increase in mobile wallet payments and card transactions. Payment Options for Mobile Devices With the announcement of demonetization, businesses have been urged to accept a wider variety of payment options in order to meet the needs of their clients. Customers are choosing these services to create convenience of payments and owing to the cash issue. To accept payments, businesses are increasingly leaning toward not just buying card-swipe devices, but also digital payments and digital payment systems. M-PESA Around 8.4 million MPesa members were given the ability to withdraw cash from more than 1,20,000 M-Pesa locations as Vodafone unveiled a novel cash out facility. M-Pesa stands apart from the competition since it can be digitally reloaded using credit/debit cards and online banking. 56% of these stores, as of this writing, can be found in rural areas of India. After the announcement of demonetization, Paytm, one of the oldest mobile payment systems, has seen an astonishing rise of 435% in total traffic as millions of consumers have turned to their Paytm accounts to make instant purchases. They admit that the quantity of app downloads has increased by 200 percent and the value of offline transactions has increased by 400 percent.

Effect of Digital payment mode

As cash transactions decrease, interest in other methods of payment is expected to rise. Companies offering mobile payment services, such as M-Pesa, PayTm, Mobikwik, Freecharge, etc., have gained significant market share during the last 12 months. There will undoubtedly be a significant uptick in demand for digital transaction systems like plastic money (debit and credit cards), e-wallets and applications, online transactions using Ebanking, etc.

Conclusion

Without a shadow of a doubt, demonetization is a brilliant plan for India's economic and social future. Media outlets have reported a drop in retail sales in the month after the government's decision, while also noting that millions of people are signing up for digital payment systems via various portals. Due to a liquidity problem, the retail sector has been hit most by the decision to demonetize. Due to the high volume of cash transactions in the Indian retail sector, the ongoing cash crunch would likely continue to dampen business for the next few of quarters. Yet, compared to organized commerce and shopping malls, the downturn is felt most strongly by small merchants, unorganized retail vendors, and numerous highstreets throughout the nation. It's obvious that mall traffic is down, but this is just a temporary problem that will be solved when more money enters circulation in a few weeks. This decision will have a significant effect on businesses since it will promote the use of digital payment methods, which in turn will increase market transparency and structure.

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