



## IMPACT OF DEMONETIZATION ON INDIAN ECONOMY

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### ABSTRACT

*Demonetization can be said as a Surgical Strike" on Black Money, war and Terrorism, Fake Currency/notes, Real Estate, and .The contention placed for demonetization that would be quenched would be "black money" and thus, ought to be legitimately quenched to set right the unreasonable motivating force structure in the economy. While the truths are not accessible to anyone, it would be irresponsible to contend this is the only possibility. In this way, it is basic to assess the short run and medium-term impacts that shock is expected to have on the economy.*

**KEYWORDS:-** demonetization, indulge, illegal, black money, tender money, CMIE, money laundering etc.

### INTRODUCTION

Demonetizations is going to be a landmark for Indian economy. It was an experience which might create fear in the mind of the people who indulge in illegal activities like tax evasion or money laundering of any kind.

On Nov.8, 2016, the Indian government (NDA) declared that the 500 and 1000 rupees notes will be stripped of their status as legal tender from midnight. So, the government given time to citizen till 31 Dec, 2016 to deposit their old notes or exchange them for new 500 and 2000 rupees notes.

### IMPACT

On Gross Domestic Product (GDP): The Indian economy is a cash-driven economy and demonetization has largely affected its growth. The GDP growth rate of 8.01% in 2015-2016 fell to 7.11% in 2016-2017 after demonetization. This was largely due to less availability of cash in cash-intensive industries like manufacturing

and construction. It has also adversely impacted the primary function of banks to issue loans and has put pressure on them as current account holders demand large sums of cash.

### **ON DAILY WAGER/WORKERS**

A major portion of the Indian workforce is a part of the informal economy. They use cash to meet all their expenses and demonetization has resulted in a lot of them losing their jobs due to unavailability of cash. According to CMIE's Consumer Pyramids Household Surveys (CPHS), approximately 1.5 million job were lost during the final quarter of the financial year 2016-17. The estimated employment during this period was 405 million as compared to 406.5 million during the previous four months.

### **ON SMALL SCALE INDUSTRIES**

Businesses like the textile industry, salons, restaurants, and seasonal businesses are low capital enterprises and work on the basis of liquidity preference. Demonetization gravely impacted their revenue collection and threatened their existence to an extent.

### **ON BLACK MONEY**

Though only a small portion of black money is stored in the form of cash and majority is in the form of physical assets like gold, land, and building, demonetization of the rupee 500 and 1000 notes might take out a lot of black money from the economy.

### **ON THE GENERAL ECONOMIC SITUATION**

Till months after demonetization the general economic situation was disturbed. The public had to queue up outside banks to exchange their old currency for new ones. Households lacked liquidity and could not do transactions for daily items. Small shopkeepers who only accepted cash went into losses and some even shut down.

### **ON INFLATION**

The Reserve Bank of India (RBI) considers the Wholesale price index (WPI) and the Consumer Price Index (CPI) to measure inflation. Demonetization is expected to reduce inflation as consumers have cut down on spending and aggregate demand has considerably fallen. According to government press releases, the official WPI for 'All Commodities' (Base: 2004-05=100) for the month of December, 2016 declined by 0.2 percent to 182.8 (provisional) from 183.1 (provisional) for the previous month. The index started rising during the month of

January and rose by 1.0 percent to 184.6 (provisional) from 182.8 (provisional) for the previous month. This may be correlated with the availability of cash with people which led to increased spending.

## ON TERROR FUNDING

Demonetization was aimed as a clean-up of the economy where Fake Indian Currency Notes (FICN) would be checked. It is aimed at rendering all fake notes of rupees 500 and 1000 useless and thus drastically affecting illegal funding of terror groups in Jammu and Kashmir, states in the North-East, and Nationalism-influenced states.

## ON POLITICAL PARTIES

Many Political Parties use large amounts of undeclared cash to campaign for elections and meet other requirements. Due to Demonetization such acts might get restricted to an extent and parties will have to formulate new strategies.

## TOWARDS A DIGITAL ECONOMY

Absence of liquid cash has led to people making transactions using cheques or account transfers. They have also switched to virtual wallets like Paytm which allows electronic transfer of money. All this might result in a digital economy where transactions are being recorded and the economy has more white money. This might increase the government's tax revenue.

## CONCLUSION

According to DR.MANMOHAN SINGH, "Demonetization is very productive in long run but short run marginal sacrifice is more than long run gain."

Demonetization has been praised as well as criticized on various grounds. There has been a lot of opposition regarding the implementation of this policy. In the short run, there have been problems related to liquidity crunch, unemployment, loss of growth momentum and a temporary halt to major economic activities. All this is evident from the data provided by the RBI.

The long term effects of Demonetization are yet to be ascertained. It is expected that it can improve the Indian economy in the long run by increasing tax compliance, financial inclusion, consequently improving the state of the economy. It can boost the GDP by increasing the availability of funds for lending and also by reducing transaction costs if the economy moves to digital modes of payments.

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