

Effect of Demonetisation on Indian Economy

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Abstract:

Demonetization widely used word, now a days, has two major effects viz. the first major effect is where this currency was used and where it will be used. Whereas second major change from demonetization would arise as a part of currency deposited in the bank and return is circulation as cash. Before demonetisation individual used to do investment out of savings (Income – Expenditure = Savings). But after demonetisation individual pattern is like Income – Bank deposits = Expenditure. One thing is clearly seen that people cut their spending because of liquidity crunch. It leads to great uncertainty in the minds of investor, where to invest? But as time passed gradually panic situation came to an end. Finally demonetisation leads to a make a market volatile for few more months, post which one can expect consumer demand to pick again. Though Demonetisation has much effect on different sectors of an economy if positive measures taken will give outburst to economy.

Keywords: Demonetisation, Effect of Demonetisation, Demonetisation sustainability measures, Demonetisation effect.

Introduction:

“Demonetisation” the word which is generally talked about toward the finish of 2016 and start of 2017, the word which changed the reasoning example of Indian Investors. The proposition by the Government includes end of Rs. 500 and Rs. 1000 cash notes from the distribution of economy. Fundamental purpose for demonetisation plan was to curb black money, taking out fake money, disrupting terror and criminal activities and to boost up tax collections which consequently will build the social use by the Government. However, later on new targets were engaged like enabling growth in bank credit, turning India into a cashless economy. All parts in Indian economy got affect as 86% of high esteem money all of a sudden was demonetised. Couple of areas got positive effect of demonetisation like e-wallets, mutual funds, bonds and security market though it is normal y-o-y decrease in a large portion of the segments viz. real estate, second hand products advertise and so on. Already in India financial specialist used to lecture Buy Low, Sell High. Be that as it may, after demonetisation they

have wound up saying in regards to safety returns.

For the most part there are two courses in which the pre-demonetisation cash supply will stand changed in the new administration: one, there are individual in an economy who have money which they can't clarify and consequently they can't deposit it in bank. This piece of the money will be extinguished as it would not be replaced in any way. Second, the legislature may supplant just a piece of the money which was available for use as money. In alternate words, the rest would be accessible just as electronic cash. This mechanism used to compel a move to cashless medium of trade. The experimental level of these two instruments will be out just throughout the following six months. These would prompt to affect Indian economy for the time being and in the medium term.

To perceive the impacts of these degrees, it is noteworthy to first distinguish what could it be that trade does out the economy? There are by and large four sorts of dealings in the economy: accounted exchanges, unaccounted

exchanges, those that have a place with the casual part and unlawful exchanges. The initial two classes identify with whether exchanges and the comparing salaries are accounted for tax purposes or not. The second rate class would comprise to a great extent of operators who gain livelihoods beneath the exclusion edge and along these lines don't have any expense commitments. At last, there would be interest for money for illegal purposes like rewards in decisions, spending over endorsed limits, dealings in wrongdoing and defilement. On the off chance that one takes a preview of the area of money at any given purpose of time, it is hard to foresee what the separation of the money as indicated by these classifications would be, yet it is sheltered to state that each of these systems would be spoken to in depiction.

2. OBJECTIVES

1. To describe Effect of Demonetisation on Indian Economy.
2. To identify very short term, short term and medium term effect of Demonetisation.
3. To analyse effect of Demonetisation on different segments of an economy.
4. To determine measures needed to sustain Demonetisation benefits.

3. REVIEW OF LITERATURE

Dr. Partap Singh and Virender Singh in their article "Impact of Demonetisation on Indian Economy" published in International journal of science technology and management, volume 5, issue number 12, December 2016 studied experiences from different countries shows that the move for demonetisation was one of the series that failed to fix a debt-burdened and inflation-ridden economy.

Tax Research Team in their "Research paper published in NIPFP Working paper series", No.182, dated 14 Nov, 2016 stated that cash was mediating in legitimate economic activity, if this currency is extinguished there would be a contraction of economic activity in the economy and that is a cost that needs to be

factored in while assessing the impact of the demonetisation on the economy and its agents.

4. EFFECT OF DEMONETISATION

Twofold foremost impacts of Demonetisation are watched, the primary significant impact is the place this money was utilised and where it will be utilised. In spite of the fact that second real change from demonetisation would emerge as a piece of money saved in the bank and return is stream as money. Before demonetisation individual used to do venture out of reserve funds ($\text{Income} - \text{Expenditure} = \text{Savings}$). Be that as it may, after demonetisation singular example resembles $\text{Income} - \text{Bank deposits} = \text{Expenditure}$. One thing is obviously observed that individuals cut their expense due to liquidity crunch. It prompts to awesome equivocalness in the psyches of financial specialist, where to contribute? Yet, as time passed continuously freeze circumstance reached an end. At last demonetisation prompts to a make a market unstable for couple of more months, post which one can anticipate that purchaser request will pick once more.

4.1 Short-term and medium-term effect:

4.1.1 Very short-term effect

The demonetisation, by evacuating 86 percent of the cash in stream, has brought about an exceptionally serious shrinkage in cash supply in the economy. This diminishment, by wiping out trade offsets the economy, will annihilate various exchanges for some time, since there is no adequate of a medium of trade open. Since pay and use are characteristically related to trades in the economy, the above would mean an extraordinary pressure in pay and use in the economy. This effect would be more genuine on individuals who gain pay rates in exchange and spend it out cash. To a lesser degree it would in like manner impact individuals who pick up employments in non-cash outlines yet need to pull back in genuine cash for use purposes, since different parts in the economy still work generally with cash.

As far as the areas in the economy, the parts to be influenced are every one of those divisions where request is normally supported with money, particularly those not inside the sorted out retailing. For example, transport administrations, kirana, foods grown from the ground and every single other perishable, would confront pressure sought after which is supported by acquiring power. This thus can have two impacts: while it is normal that supply surpasses request, there would be a fall in costs, nonetheless, if supply excessively gets shortened for need of a medium of trade, costs may, truth be told, rise. Along these lines, while for the most part individuals appear to anticipate that costs will fall, it is very conceivable that costs would rather rise.

Then again, to keep the streams going, individuals may assume plan of action to acknowledgment - both the retailers and different operators in the economy may make supplies using a loan with the expectation that when the liquidity status is amended, the installments can be figured it out. In these cases, the cost of goods may ascend as opposed to falling. As such, the effect of an incremental decrease in cash supply where the request and the store network stay unaffected would be not quite the same as a situation where there is a radical diminishment in cash supply and yields may alter as opposed to the conformity being in costs. As it were, the desire that swelling would decay may be misrepresented.

A further effect would be a pressure of the interest for extra items by every one of the specialists in the economy notwithstanding weakness in the accessibility of money. The request from sections which have admittance to computerised medium of trade would stay unaffected, however that from whatever remains of the economy would get compacted. This would transmit the impact to whatever remains of the divisions in the economy also.

Another segment where one hopes to see impacts in the short run is the land space. With constriction sought after from one arrangement of operators – say specialists who

have earned unaccounted wages and set them inside the land space – either costs inside this portion would fall or exchanges would stop to happen. While of itself, this would be viewed as a positive improvement and proof of an amendment in the unaccounted wages, it could prompt to a pressure in interests in the development division which can have unfavorable wage and business outcomes for the economy.

There are probably going to be two turn offs from this change – one, there would be some expansion in assessment accumulations temporarily, and second; different options could develop as money substitutes. To the degree individuals endeavor to dispose of unaccounted money adjusts through buy of products and enterprises or potentially installment of property expenses, one ought to witness a spurt in assessment accumulations in roundabout charges and in addition property impose in the month after demonetisation which would vanish from there on. There is confirmation as of now that property impose accumulations in a few urban communities are higher than a year ago. Thus, on account of cash substitutes, at tax collection centers at the border, people are being given options in lieu of the balance they were entitled to, which would be valid for six months.

4.1.2. Short-term effect when complete replacement done:

Couple of areas is probably going to be genuinely influenced. To give a case from two areas which should have expansive work impact on the economy, we can discuss Agriculture, Automobiles and Construction.

This is the sowing season for the Rabi edit in a few sections of the nation and the gathering season for the Kharif trim. The greater part of the buys and deals in this fragment of the economy are brought out through money. With the end of money from the economy, offer of kharif yield would be troublesome unless the product is sold on the guarantee of installment in future. Given the restricted bargain force of the farmer, the value they can

understand for the product can be unfavorably influenced. Then again, in the sowing movement, individuals would not access the data sources required since the vast majority of the information sources are currently acquired from the market unless they look for access to credit from the provider. As it were, with demonetisation, there would be a noteworthy fortifying of the casual part credit advertise in the rustic economy. Encourage, if there are operators who don't access credit from the casual division specialists, their sowing movement and henceforth their livelihoods in the following season would be violently influenced. Subsequently, disregarding a decent rainstorm in huge parts of the nation, the farmers won't get the advantages.

The second area which could be unfavorably influenced would be the development segment. The area, it is frequently contended, works with a lot of money. Installments to laborers and an assortment of buys may be completed in real money. Along these lines, on the supply side, this segment can be antagonistically influenced. Then again, on the request side, the interest for houses and structures would show up as an interest for unnecessary items and may be pushed on to the back burner until the financial circumstance standardizes. In this manner, to the degree there are operators in the economy whose request was upheld by reserve funds from unaccounted wages held as money which got smothered on demonetisation, there would be a pressure of interest.

4.1.3 Medium-term effects:

There would not be any significant impacts on the economy. Notwithstanding, it is not out of the ordinary that the whole cash would not be supplanted – to the degree a portion of the money stays as bank deposits, there would be some effect on the economy. Like Finance Minister Arun Jaitley says, "Bank deposits will increment and they will have greater ability to growth the economy." Clearly, the extra stores seem, by all accounts, to be equipped for invigorating a critical increment in the

potential credit that can be made in the economy. The potential credit creation would convert into genuine credit creation gave there is adequate request to credit. On the off chance that the interest for credit in the economy is sufficiently extensive, the potential credit can be figured it out. Of the credit made, different things continuing as before, it can be normal that no less than a piece of the credit, will be for gainful purposes. This would mean development in interest in the economy and accordingly an expansion in GDP and business.

In the event that there is increment in interest in the economy, the interest for capital products rises. On the off chance that yield can grow in this division, there would be an extension in the wage era and popular for merchandise and ventures. Parts that are not working with overabundance limit can't take care of the extended demand with expanded yield, prompting to increment in costs. This would hold for horticulture and additionally any industry with long development slacks to venture. At the end of the day, in the short keep running there is a probability of increment in swelling.

With increment in GDP, since imports should be identified with the measure of the economy, it is normal that imports will rise, yet the same can't be said in regards to sends out. At the end of the day, the adjust of exchange could intensify. This could bring about weights on the rupee towards devaluation. Any expansion in inflationary weights also could increase these weights.

MSME is one portion of the economy which is credit obliged. Development in the potential credit in the economy could extend the credit accessible to this fragment of the economy which is more business concentrated than the sorted out assembling. As it were, if the entrance to credit for this portion can be enhanced, it can create numerous positive turn offs. One motivation behind why this portion may show signs of improvement access to formal area credit would be if every one of

their exchanges move to the computerised arrange, in this manner making accessible to the loaning organisations proof of credit value. Be that as it may, for this the exchanges need to move computerise before they can access credit. At the end of the day, unless the keeping money segment is investigating more hazardous resource classes, they would not be the recipients of the development in potential credit.

5. NEGATIVE EFFECT OF DEMONETISATION

High esteem cash Demonetisation will negatively affect the economy in two principle ways.

1) Temporary disturbances in a scope of monetary exercises coming about because of money deficiencies,

2) Beyond the brief interruptions from lack of new cash accessibility, we see this move as a riches assessment and think taking after components will bring about an all the more enduring disturbance in monetary action:

- Wealth demolition: We evaluate riches pulverization of around 1.5-2% of GDP out of aggregate demonetised money worth 10.5% of GDP. The World Bank assessed the span of the dark economy in India at 23% of GDP in 2007.
- Demand for specific resources will descend: Given that more than 90% of family unit riches is held in land, interest for land ought to fall. There's potential drawback hazard to illicit managing an account and budgetary frameworks also.
- Level move down in the parallel economy: To the degree that the parallel economy comes back to ordinary after the underlying time of modification, interest for these advantages could return, in spite of the fact that to another lower typical.

Be that as it may, there will be some financial and money related approach balances which

ought to growth development one year from now.

6. EFFECT OF DEMONETISATION ON DIFFERENT SEGMENTS OF AN ECONOMY

1) Black Money and Corruption

By Demonetisation, Black cash will be removed from Indian framework. As anticipated by ICICI Securities Primary Dealership the administration's arrangement to evacuate INR 500 and INR 1,000 notes from dissemination will reveal up to INR 4.6 lakh crore in black money. Defilement will likewise be naturally diminished by expelling black money from economy.

What is this Black cash really? Give us a chance to take a case of it: Mr. A needs to pitch his home property to Mr. B at Rs. 25 lakh. In the event that it is executed according to the concurred value then Mr. A, who gets Rs. 25 lakh is liable to long haul capital pick up expense at 20% and Mr. B who purchases house property needs to pay stamp obligation around 6%. Notwithstanding, the property valuation according to Government principles is typically not as much as the concurred value let us expect it be Rs. 15 lakh. Given the circumstance parties Mr. A and Mr. B make a lawful understanding for Rs 15 lakh and assessment/obligation will be paid as needs be. The rest of the measure of Rs. 10 lakh is paid by Mr. B to Mr. A as money which is only BLACK MONEY. With a specific end goal to moderate parallel economy or to reclassify formal economy Government has taken activities to be specific as DEMONETISATION.

According to measurement open holding of high division notes worth Rs. 9926 billion was as on walk 2016. There are 3 situation clarify for demonetisation, in situation 1 and 2 it is accepted that half of the notes of higher group don't come back to the framework. It is likewise sensible to expect that 60% of Rs. 500 notes and 40% of Rs. 1000 notes would be traded at banks/post workplaces and RBI

before walk 31, 2017. In view of such gauges, generally round Rs. 4.6 lakh crore of cash could vanish from the framework.

2) Funding

Subsidizing for pirating and fear based oppression will take a blow since all the cash will return to bank and from that point it is anything but difficult to distinguish the fake money. Demonetisation hence influences the financing of dread systems in Jammu and Kashmir, North-eastern states and alternate territories.

3) Real estate

Another effect of the Demonetisation would be decrease in trade exchanges out land. This is probably going to lessen to land costs and make it reasonable. For the time being, costs of land would descend for a similar reason above. There will be less bags moving.

4) Elections

Demonetisation hosts stunned political gatherings. Many states like Punjab and Uttar Pradesh, money gifts are a colossal piece of "decision administration". Political gatherings get themselves defenseless as money crowds are regularly undeclared cash. So election 2017 will be straightforward to the some degree.

5) Gold/Silver and Jewellery

After Demonetisation the interest for gold and different valuable metals rises significantly. Since individuals are attempting to put their black money in gold to make it white in brief period. Be that as it may, interest for pearls and adornments to decrease in the following year.

6) Digital payments

Individuals receiving on the web installments framework or online payments system, for example, Paytm and so forth after boycott for high group cash in India. Computerised exchange frameworks, E-wallets and applications, online exchanges utilizing E-banking an account, use of Plastic cash (Debit and Credit Cards), and so on will see significant increments popular. This behavioral change could be a distinct advantage for India sooner rather than later.

7) Fake Currency

The effect on the fake money would be more critical. Numerous merchants with the current fake notes would be caught as they would need to take the notes to the bank and have better odds of getting their racket uncovered. Along these lines, they have just alternative to pulverize their notes and bring about misfortunes.

8) GDP

The sudden decrease in cash supply and increment in bank stores is going to unfavorably affect utilization request in the economy for the time being. However with the current ascent in celebration request is relied upon to balance this fall in general effect. In addition, this normal effect on GDP may not be critical as some of this request may be conceded and re-enter the stream once the money circumstance gets to be distinctly ordinary.

9) Markets

There will be sure move in business sectors in long run that could bring certainty of abroad financial specialists in Indian securities exchanges. Advertise goes somewhat down in the short and medium term. India is as yet an extremely appealing goal on a long term premise. It is not the best market in the following three months.

10) Decrease in Interest Rates

We will see a bringing down financing costs for training advances, home credits and restorative advances soon. It will make advanced education and medicinal offices more available. This change is difficult to fix on the grounds that if any ensuing government builds credit it will endure tremendous kickback.

11) Lower Inflation

As the black money leaves the framework the cash supply will psychologist to some degree. This will decrease swelling rate without any open market intercessions by the Reserve Bank of India.

12) Effect on Banks

As coordinated by the Government, the 500 and 1000 Rupee notes which now stop to be lawful delicate are to be saved or traded in banks (subject as far as possible). This will consequently prompt to more sums being kept in Savings and Current Account of business banks. This thusly will improve the liquidity position of the banks, which can be used further to lend purposes. In any case, to the degree that families have clutched these assets for crisis purposes, there would be withdrawals at the second stage.

13) Effect on Online Transactions and alternative modes of payment:

With money exchanges confronting a decrease, elective types of installment will see a surge popular. Computerised exchange frameworks, E-wallets and applications, online exchanges utilizing E managing an account, utilization of Plastic cash (Debit and Credit Cards), and so on will see generous increment sought after. This ought to in the end prompt to fortifying of such frameworks and the foundation required.

14) Effect on Money Supply

With the more established 500 and 1000 Rupees notes being rejected, until the new 500 and 2000 Rupees notes get broadly circled in the market, cash supply is required to decrease in the short run. To the degree that black money (which is not fake) does not re-enter the framework, hold cash and thus cash supply will diminish for all time. However progressively as the new notes get flowed in the market and the confound gets amended, cash supply will get.

15) Effect on Demand

The general request is relied upon to be influenced to a degree. The request in taking after territories is to be affected especially:

- Consumer products
- Real Estate and Property
- Gold and extravagance products
- Automobiles (just to a specific farthest point)

All these said divisions are required to confront certain balance sought after from the shopper side, attributable to the huge measure of trade exchanges required out these parts.

16) Effect on Prices

Value level is required to be brought due down to control from interest side. This request driven fall in costs could be comprehended as takes after:

- Consumer merchandise: Prices are relied upon to fall just insignificantly because of balance popular as utilization of cards and checks would adjust for a few buys.
- Real Estate and Property: Prices in this division are to a great extent anticipated that would fall, particularly for offers of properties where significant piece of the exchange is money based, instead of in view of banks exchange or check exchanges. In the medium term, however the costs in this area could recover a few levels as engineers rebalance their costs (most likely charging more on check installment).

17) Effect on various economic entities

With trade exchange bringing down out the short keep running, until the new notes are spread generally into dissemination, certain segments of the general public could confront here and now disturbances in assistance of their exchanges. These areas are:

- Agriculture and related segment
- Small dealers
- SME
- Services Sector
- Households
- Political Parties
- Professionals like specialist, woodworker, utility specialist organisations, and so on.
- Retail outlets

The nature, recurrence and measures of the business exchanges required with these areas of the economy require money exchanges on more successive premise. Accordingly, these

portions are relied upon to have the most critical effect post this Demonetisation procedure and the presentation of new notes available for use.

18) Effect on Online Transactions and alternative modes of payment:

With money exchanges confronting a diminishment, elective types of installment will see a surge sought after. Advanced exchange frameworks, E wallets and applications, online exchanges utilizing E-banking, utilization of Plastic cash (Debit and Credit Cards), and so forth will see generous increment sought after. This ought to in the long run prompt to reinforcing of such frameworks and the foundation required.

7. MEASURES NEEDED TO SUSTAIN DEMONETISATION BENEFITS / FINDINGS

After a considerable measure of endeavors to eradicate the parallel economy, the endeavors ought not go squander. Thus, one of the old maxims says "Counteractive action is superior to cure". Obviously, the ride is not by any means smooth. Advanced installments are as yet dangerous in many parts of provincial India, which are hard hit by the money crunch. Absence of mindfulness and computerised availability has been significant hindrances. Mindful of the issue, the Government has shaped a team to advance the practice in the hinterlands. Only 55,000 traders in country India have started to acknowledge cashless installments while 2.5 million rustic family units have been enlisted in computerised exchanges. The National Payment Corporation of India has been solicited to streamline the configurations from Net-based and the UPI methods of installment. In addition, there are different issues. For example, BHIM can take off colossally if provincial Indians have Aadhaar-enjoyed financial balances. Be that as it may, out of the more than one million dynamic laborers under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS),

just 34 for every penny have Aadhaar-connected ledgers. The Ministry of Rural Development has now an objective to have 35 million occupation accounts connected to Aadhaar. The other issue with cashless exchanges needs to do with the lacking number of biometric machines at Government proportion shops to recognize MGNREGA specialists. Just 35 for each penny of the 1, 60,000 apportion shops the nation over had introduced such machines.

These are the difficulties, however in the test lies an enormous chance of the sort never saw. The Government apparatus and the private part should roll out systemic improvements in the nation's installment administration taking after demonetisation, less-money if not cashless, should in the end turn into the request of the day so that even after the money crunch facilitates, and it should not pass into the same old thing with individuals coming back to money as their favored method of exchange. The chance to patch up the framework in the long haul ought not be permitted to be lost. So it is ideal to actualize a portion of the preventive measures against improvement of parallel economy at the end of the day and to maintain transformed solid economy.

Taking after are a couple measures which will help maintaining the profits of Demonetisation:

1) Implementation:

The issue is not the presence of parallel economy or finding the measures to check it, yet it is usage of every one of those measures to beat danger of parallel economy. In the event that Government takes start in actualizing at any rate larger part of the measures accessible before Government, then this issue discovers arrangement all alone.

2) Linking of Aadhaar:

Every one of various financial balances must be connected with Aadhaar. Indeed, even financial balances as well as different divisions, for example, Income Tax, deals assess, VAT, Excise, Customs, Service Tax, Licensing office

and so on so that, different exchanges can be followed effortlessly. This makes mindfulness among the general population as well as controlling system. Connecting of Aadhaar must be made required to get common advantages.

3) Reduced tax rates:

One of the principle thought processes behind tax avoidance is high tax rates. On the off chance that we take a gander at expense paradise nations, India has high duty rates. Assess rates are to be conveyed down to such degree that cost of compliances must be lower than the cost of tax avoidance. This can be accomplished just when we enlarge our assessment net.

4) Mechanised System:

Because of corruption we find there are spillages in producing income to Government. On the off chance that we plug those spillages, Government can diminish its assessment rates. Diminished human obstruction in the framework will decrease debasement. Indeed, even some solid measure must be executed on degenerate officers as well.

5) Declaration of assets:

Like wealth tax act which was in constrain before, it must be made compulsory to proclaim each people resource for Government. Undeclared resources if found by Government, then the same can be seized by Government. This anticipates assembly of black money as gold, land, house property and so forth.

6) Simplified tax structure:

Many individuals are thinking that it's hard to comprehend different charges and its count. So a development of GST may bring straightforward and clear picture of indirect tax. In the meantime evacuation of different

assessment instrument in direct expense, for example, surcharge, education cess, short term capital gain u/s 111A and so on might be expelled, which will rearrange the duty estimation component.

7) Uniform Property Registration Software:

Building up a uniform programming system like stock trade to enroll properties all through the nation connected with Aadhaar is important to defeat holding of benami properties. It should be possible without disturbing the state government power to produce income of stamp obligation, similarly as a control instrument.

8) Good Governance:

Control on holding of money and physical cash both in India and abroad, must be brought under the lawful system. Individuals must trust in great administration and support for it. Winning open confidence in great administration is especially fundamental to fabricate solid economy.

Numerous more preventive measures must exist in the framework to hold and hold the sound economy.

8. CONCLUSION

Hence summing it up, because of demonetisation many organisations may have discouraged or stifled profit. People were severely influenced on account of this 50 days note exchange process, leaving the purchaser stress over their consumption. As the proverb is said that "the struggle you are in today is developing the strength you need for tomorrow" and ultimately the reward came in the form of tax collections to the Government as expected, in future, Government is expected to spend the said collections in the social developments of the country.

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