

Impact of Demonetization on Indian Economy: A Review

Vaishnavi Pandey

Student, PGDM Rural Management, Xavier Institute of Social Service, Ranchi

Abstract: *Demonetization had been done with the positive approach to eradicate the black money from the economy but it does not go the way fully like it has been planned. Various steps need to be taken to eradicate stock of black money only one step is not enough for this purpose. But if we look on the other hand, demonetization is also the need of hour. Also there are also various steps regarding all these which government need to take in these regards. There are various effects of demonetization on Indian economy and its various sectors. There are many sectors whose trend went upward movement and there are various whose trend shows downward movement. Moreover these effects continue to go on in various directions with the time and the trend in economic activities.*

Keyword: Economy, Demonetization, Black Money

1. Introduction

8 November 2016, the date remembered by every Indian, black money holder, terrorist, corrupted people of India. Yes, the 8 November at 8:00 p.m the demonetization happened. This was the big surprise to everyone by Honorable Prime Minister of India Shri Narendra Damodar Das Modi. This event left the golden mark in history of India, aiming the positive changes in the Indian economy by eradicating stocks of black money from economy and makes that money circulate in economy freely.

The objectives of demonetization are to suppress black money, money with terrorists and naxalite, fake currency from economy and to make circulation of black money ineconomy. Bydemonetization government initiated its first step towards the eradication of black money and to bring transparency in an economy. This was the time when every Indian was a part of the queue either to deposit the money in their respective bank accounts or for the withdrawal of money from ATMs. By this act of the government there seems to be many benefits to the Indian economy as their will be no use of those money which is with the terrorists, black money holders and corrupted politicians. Government had earned the trust of every common man who is suffering from this black money effects.

2. Impact on Economy

According to recent news, the 99% money received from demonetization went back to RBI and is in circulation in economy in other form of currency.. We see the the demonetization is found to be necessary action to avoid the huge deflation situation same as of the 2008 one which is going to occur especially due to the Land Acquisition Act passed by the UPA government.

Under this Land Acquisition Act, the cost of land for building highway which is of Rs.1 crore in 2014 would be now of Rs.4 crore. This act of UPA government told the landowners to sell

their land for building highways in the double price of the actual cost. And we all know that land and building (real estate) is the major holder of the black money. So, due to this the deflationary situation started to occur which is even worse than demonetization. To eliminate this problem of black money from the real estate the demonetization is the demanded action of the current situation. With exchange of the old currency notes coming to an end, many people are forced to open accounts to save their money. It is estimated that banks have opened about 30 lakhs (and still counting) new accounts since the demonetization drive began on November 8

By act of demonetization of Rs 500 and Rs 1000 legal notes government was successful in bringing all the dead currency into banking system. Now the banks do not have financial crunch to finance huge infrastructure projects. All the money deposited in bank has name of its depositor, so in due course it will be detected if it is black money. Fake currency which was in huge circulation is eliminated. Till now all the development was seen around rich people and it may cause slow down in GDP, as shown in table 1, but when benefit will pass to poorer people GDP will increase rapidly and growth will be real and reflected on poorest of poor people.

Table 1: Projected GDP

	Original 2017	Revised 2017	2018
Reserve Bank of India	7.60%	7.10%	-
World Bank	7.60%	7.00%	7.60%
IMF	7.60%	6.60%	7.20%
Rabobank	7.00%	5.50%	8.20%

Demonetization had also interrupted business sector in India especially the unorganized sector. The labour based construction sector also contracted by the effect of this demonetization because they face the cash shortage problem amongst them. The situation of demand and supply falls during the festive season and also it effects the growth of various sectors like manufacturing sector, hotelstrade and transportation sector slowed down at 6.5% from the previous

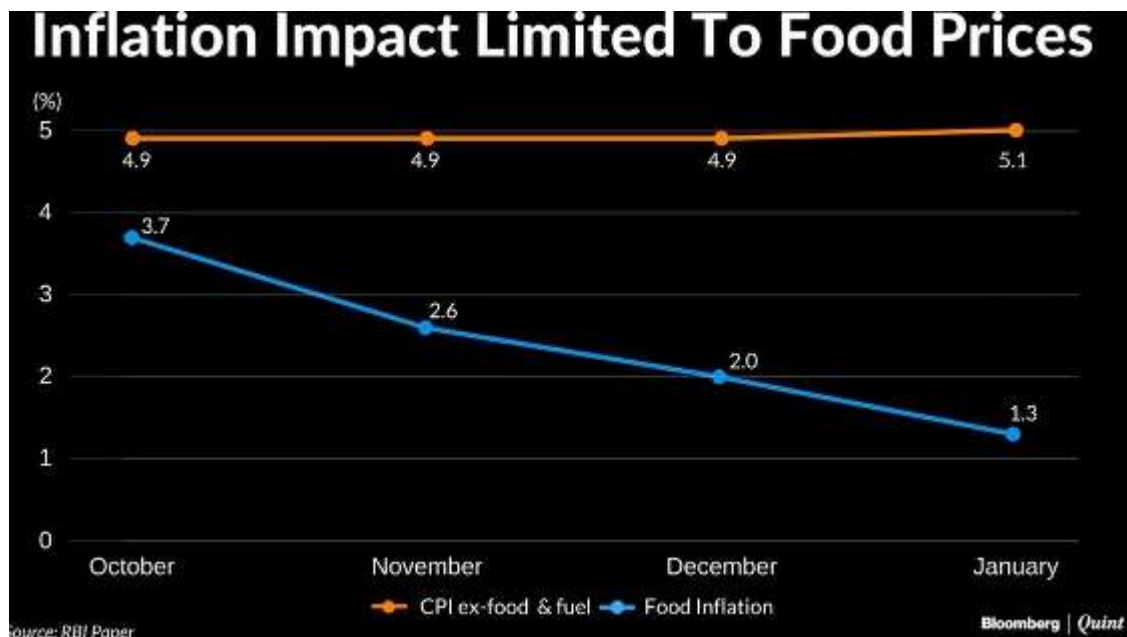
quarter. Meanwhile mining and public expenditure grows at 6.4% and 17% respectively with the growth in financial service sector at 5.2%. This overall results in growth of gross fixed capital formation and final private consumption at 8.7% against 6.1% a year ago.

3. Inflation Impact Restricted to Food

In the RBI's analysis, the downward pressure on prices of perishables, more than made up for any upward pressure that may have resulted from a disruption in supply chains. The

central bank is also of the view that apart from food prices, demonetization had little impact on the inflation trajectory.

Core inflation, which has been sticky, has in fact risen marginally after demonetization. If vegetable prices also start to rise as the process of remonetisation is completed, headline retail inflation could start to move up, cautioned the central bank. In February, wholesale inflation jumped sharply to 6.55 percent while retail inflation rose marginally to 3.65 percent.



Graph 1: Inflation Impact

Digital Payments Gain

With cash in short supply, citizens took to digital payments. Representative data by the central bank shows that the volume and value of transactions has risen significantly between November 2016 and February 2017, although it had moderated from the peak hit in December. Channels such as

the Unified Payment Interface (UPI), prepaid instruments like mobile wallets and debit and credit cards, saw increased usage due to the low availability of cash. The RBI, however, acknowledged that ensuring the surge in digital payment sticks may not be easy.

INCREASE IN VOLUME OF DIGITAL TRANSACTIONS		
	% Change (Nov'16-Feb'17)	% Change (Nov'15-Feb'16)
NEFT	20.4	10.4
Cheque Truncation System	15.3	18
IMPS	65.2	25.1
UPI	1346.1	NA
Debit & Credit Cards (PoS)	3.3	3.9
Pre-Paid Instruments	32.8	4.3

Graph 2: Digital Transaction

4. Conclusion

Now, the question arises where is the black money which government has accepted to be back in the economy. Eradicating black money is not a simple task to be accomplished in the one go. This needs a number of actions to be taken and decisions to be made for full removal of black money from the economy

Government can take the three necessary steps to remove black money from the economy which is not taken by the government till now.

The first action is to involve state in this removal. This step is necessary because the land acquisition, land holding, land registration and selling are done under the state government. So to remove black money from the real estate the state government needs to be the part of the action to track the benami property or implementing the real estate regulation act. Government should make Aadhaar compulsory for all type of exchanges of land and real estate properties and should develop Aadhaar based network alike pan so that real time data of exchanges of real estate are registered. So that every transaction can be made with the transparency in system.

Secondly, government should make social welfare schemes Aadhaar based and all the subsidies should be transferred into beneficiaries account directly rather than to give them in kind.

Third and the most important aspect is political funding. Thus it has been restricted in the union budget 2017-18 but it still needs to be taken in consideration and doing some reforms in this field because still politician make money from these kind of election activities which again results in the formation of black money.

Demonetization had resulted in a both positive and negative way. Some more action still need to be taken for eradicating black money from the economy as the black money is creating a hurdle for economic growth as well as development.

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Author Profile



Vaishnavi Pandey, BBA (Banasthali Vidyaapeeth), Student PGDM Rural Management, Xavier Institute of Social Service, Ranchi