

The Study of Impact of Demonetization and GST on Indian Economy

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Abstract: *This research paper aims to help in carrying out the survey of effect of Demonetization and GST on Indian economy. And how it create effect on Black Money, Corruption, terrorism and tax evasion etc. It also reflect the new GST slab and reflect how many time demonetization face by the Indian economy as well as implementation of Demonetization and GST in India. Data collected for the research is totally based on the secondary data. And from other articles and RBI reports. All the data collected for analysis is for the period of 5 years i.e. from 2013-14 to 2017-18. Research methodology include statistical tool and methods such as chart, tabular and percentage. Finally paper conclude that the Government has tried something different to make the country better place to live in. The decisions may cause a lot of pain but in the future periods it will benefit a lot, Effect of Demonetization and GST create adverse effect on the Indian economy from the date of implementation of both. Before implementation GDP and Inflation rate are normal as compared to post implementation, it protect and guide Indian people in term of e-banking and on-inline filling. Lastly if once again demonetization of 2000 RS notes as well GST on petroleum product apply then it create good effect on Indian economy.*

Keywords: Demonetization, GST, Impacts on Indian economy, Cashless Economy, Black Money, Corruption, Tax slab

1. Introduction

1.1 Demonetization and GST

On November 8, 2016, the government of India withdrew the legal tender status of Rs. 500 and Rs. 1000 denominations of bank notes issued by the Reserve Bank of India till **November 8, 2016**. This initiative has been taken by PM Narendra Modi in an attempt to address the resolve against black money, inflation, terrorism, corruption misleading and to promote a cashless economy, which is also likely to impact on different sectors of the economy. He announced that these notes will not be valid from the midnight and no transactions made in these currency will be accepted anywhere in the country and these notes will be worthless piece of paper. This was done to take action against the increasing amount of corruption in India and to counter attack tax evasion also. It is the process under which the existing notes which are being used in the currency are being cancelled to be used further and instead new notes shall be used. Demonetization is not a new concept in the past also it has been utilized by various countries as well as India to curb currency some failed very badly with this move. The first demonetization was on 12th January 1946 (Saturday), second on 16th January 1978 (Monday) and the third was on 8th November 2016 (Tuesday). Developing country like India has to find the solution to come out of the problems like this for the betterment of the country. Sourcing information from the National Institute of Public Finance and Policy (NIPFP), Mehra (2014) reports the size of black economy in India constitutes 75 per cent of India's GDP. On the other hand, Kumar (2016) estimates put the size of black economy to be around 62.02 per cent of India's GDP. As far as fake notes are concerned, a 2015

Study by the Indian Statistical Institute, Kolkata, estimated the fake currency in circulation to be just Rs. 400 crore or a mere 0.02 per cent of the total notes in circulation (Ghandy, 2016). Kumar and Verma (2017) note that 98.8 per cent of

the demonetized currency was back with the RBI by January 13, 2017.

Goods and Services Tax or GST (One Nation One Tax) Implemented on July 1, 2017 was introduced by the Constitution Act, 2016 in India. The GST is said to bring about the economic integration said by our Union Finance Minister Arun Jaitley during the Budget speech at 2016. GST is the crucial form of Indirect Taxation which is said to be the indirect taxation reform ever since our Independence. The Goods and Service Tax is levied on the manufacture, sale and consumption of the goods and services. Through the implementation of GST, all other taxes like Value Added Tax, Sales Tax will be removed and a uniform tax system on goods and services will be followed. Depending upon the transaction, GST is categorized into three components, i.e., CGST (Central Goods and Services Tax), SGST (State Goods and Services Tax) and IGST (Integrated Goods and Services Tax), charged by the Central government and State government respectively. Most of the countries followed the three types GST system while some countries like Canada followed a dual GST system, i.e., where tax is imposed by both the Central and State government.

1.2 Meaning

What is the Meaning of Demonetization?

Demonetization refers to an economic policy where a certain currency unit ceases to be recognized or used as a form of legal tender. In other words, a currency unit still loses its legal tender status as a new one comes into circulation.

What is GST?

'G' – Goods

'S' – Services

'T' – Tax

“Goods and Service Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level under which no distinction is made between goods and services for levying of tax. It will mostly

substitute all indirect taxes levied on goods and services by the Central and State governments in India.

1.3 Types of GST

What is CGST?

CGST full form is Central Goods and Services Tax:-

CGST refers to the Central GST tax that is levied by the Central Government of India on any transaction of goods and services tax taking place within a state. It is one of the two taxes charged on every intrastate (within one state) transaction, the other one being SGST (or UTGST for Union Territories). CGST replaces all the existing Central taxes including Service Tax, Central Excise Duty, CST, Customs Duty, SAD, etc. The rate of CGST is usually equal to the SGST rate.

What is SGST?

SGST full form is State Goods and Services Tax:-

SGST (State GST) is one of the two taxes levied on every intrastate (within one state) transaction of goods and services. The other one is CGST. SGST is levied by the state where the goods are being sold/purchased. It will replace all the existing state taxes including VAT, State Sales Tax, Entertainment Tax, Luxury Tax, Entry Tax, State Cesses and Surcharges on any kind of transaction involving goods and services. The State Government is the sole claimer of the revenue earned under SGST.

What is IGST?

IGST full form is Integrated Goods and Services Tax:-

Integrated GST (IGST) is applicable on interstate (between two states) transactions of goods and services, as well as on imports. This tax will be collected by the Central government and will further be distributed among the respective states. IGST is charged when a product or service is moved from one state to another. IGST is in place to ensure that a state has to deal only with the Union government and not with every state separately to settle the interstate tax amounts.

What is UTGST (or UGST)?

UTGST full form is Union Territory Goods and Services Tax

The Union Territory Goods and Services Tax, commonly referred to as UTGST, is the GST applicable on the goods and services supply that takes place in any of the five Union Territories of India, including Andaman and Nicobar Islands, Dadra and Nagar Haveli, Chandigarh, Lakshadweep and Daman and Diu. This UTGST will be charged in addition to the Central GST (CGST) explained above. For any transaction of goods/services within a Union Territory: CGST + UTGST. The reason why a separate GST was implemented for the Union Territories is that the common State GST (SGST) cannot be applied in a Union Territory without legislature. Delhi and Puducherry UTs already have their own legislatures, so SGST is applicable to them.

2. Literature Review

Muthulakshmi, E. Kamatchi (2017) in her paper entitled "Impacts of Demonetization on Indian Economy-Issues & Challenges" states that when the money is withdrawn from

the economy, the country will not be benefited in short term. On the other hand, if the money paves its way into the economy it would have a positive and meaningful impact. She also states that the demonetization move, on one hand, was a serious attack on black money, corruption, hawala transaction, counterfeit currency and terror financing. On the other hand, it had a negative impact on various sectors like commodities and real estate.

Monika Sehrawat and Upasana Dhanda (2015) in "GST in India: A key tax reform" concluded that introduction of GST will undoubtedly boost the Indian economy but focus should be given on rational design of GST model and timely implementation.

Pinki, Supriya Kamma and Richa Verma (July 2014) studied, "Goods and Service Tax- Panacea For Indirect Tax System in India" and concluded that the new NDA government in India is positive towards implementation of GST and it is beneficial for central government, state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure.

Nitin Kumar (2014) studied, "Goods and Service Tax- a Way Forward" and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

3. Research Methodology

Objective of the study

- To study about the impact of GST and Demonetization on in Indian economy.
- To Understanding in - depth the concept of Demonetization and new taxation system introduced - Goods and Services Tax (GST) in India.
- To study the effect of GST and Demonetization on inflation and GDP.
- To know the Merits and Demerits of GST and Demonetization in Indian context.

Null hypothesis

There is no significant Impact of Demonetization and GST on the Indian Economy and its people.

Alternate Hypothesis

There is significant Impact of Demonetization and GST on the Indian Economy and its people.

Data collection

This research is totally based on secondary Sources. To collect secondary information various journals, research articles, research papers, review papers and RBI reports are used.

Period of Study

This study covers a period of last five years, i.e., from 2013-14 to 2017-18.

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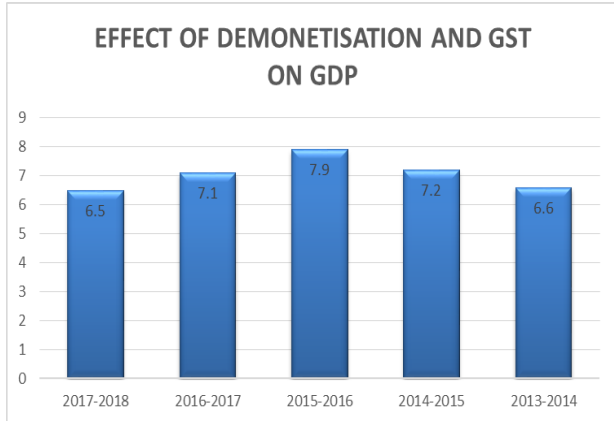
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Tabulation, Mathematical and statistical tools such as percentage, trend analysis etc. have been used to complete the purpose of the study. The use of tables, charts, graphs etc.

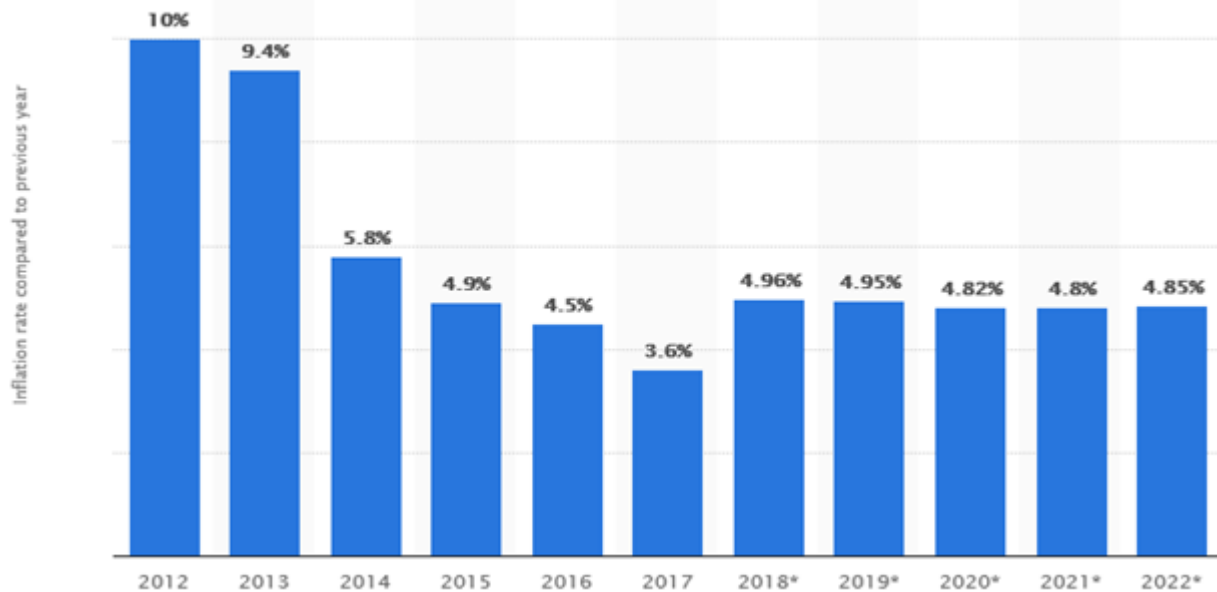
Data Analysis

Year	2017-2018	2016-2017	2015-2016	2014-2015	2013-2014
GDP %	6.5	7.1	7.9	7.2	6.6

Data analysis reflect that GST and Demonetization create adverse effect on GDP. Percentage of GDP from 2013-2014 to 2014-2015 increase by 0.6%, from 2014-2015 to 2015-2016 GDP increase by 0.7%. Which show good result on Indian economy as well as increase in the national income. But due to implementation of GST and Demonetization in the year 2016-2017 GDP growth decline by 0.8% in the year 2016-2017 as compare to 2015-2016. And still it reach up to 6.5% in the year 2017-2018 (till this date).



Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Inflation (%)	10	9.4	5.8	4.9	4.5	3.6	4.96	4.95	4.82	4.8	4.85



Data analysis reflects that GST and Demonetization create adverse effect on inflation. Percentage of inflation in 2013 was 9.4% is high as compare 2014 by 3.6% due to some effect on economy. Gradually in the year 2015inflation increase by 0.9% and again in the year 2016 inflation decline by 0.4%. Which show positive impact on Indian economy. But due to implementation of GST and Demonetization in the year 2016-2017 inflation in India was around 3.6% in 2017. Due to such adverse effect of implementation on Indian economy the rate of inflation start increase and decrease from 2018-2022.

- Putting a complete full stop to corrupt practice
- Witness sophisticated banking system
- Reduce liability for government
- Reduce tax evasion
- Increase GDP level
- It transparent tax and also reduce number of indirect taxes.
- It will also help to build a transparent and corruption free tax administration
- It is a transparent tax and also reduces number of indirect taxes.
- It will not be a cost to registered retailers therefore there will be no hidden taxes and and the cost of doing business will be lower.

4. Merits and Demerits

Merits of Demonetization and GST

- To make Cashless & Digital Indian economy

Demerits of Demonetization and GST

- Economist say that GST and demonetization in India would create adverse effect on Indian economy
- The announcement of the demonization of the currency and GST has caused huge inconvenience to the people.
- It create adverse effect on the budget of country
- Tempers are running high among the masses as there is a delay in the circulation of new currency online filing of GST.
- The government is finding it hard to implement this policy. It has to bear the cost of printing of the new currency notes and to start new server. It is also finding it difficult to put new money into circulation and GST slab.
- Adoption and migration to the new GST and currency system would involve teething troubles and learning for the entire ecosystem.

5. Limitation of Study

- Study is totally base on the secondary source of data.
- Study period is only for 5 year.
- Study shows the effect of Demonetization and GST on Indian economy only.
- Study represent only the effect on GDP and Inflation only.

6. Conclusion

The main objective of this article was to assess the impact of GST and Demonetization on Indian economy, and to measure the pre and post effect of GST and Demonetization on Indian economy. After implementation of GST and Demonetization in Indian economy in the year 2016-2017 GDP rate start declining as compare to past year 2016-2015 and inflation rate start increasing as compare to the year 2017. In order to measure the Impact the GST we need to wait for the time and the Government needs to communicate more and more about the systems. It could be a good way to reduce the black money and good effort by the Government of India after the Demonetization of the money in 2016.

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