

**INTERNATIONAL JOURNAL OF ENGINEERING SCIENCES & RESEARCH
TECHNOLOGY****DEMONETIZATION AND ITS IMPACT ON INDIAN ECONOMY****Dr Sutinder Singh***

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ABSTRACT

India has carried out demonetization exercises twice before, in 1946 and 1978. In Jan 1978 episode, currency worth INR 1.46 bn (1.7% of total notes in circulation) was demonetized. Of this INR 1.0 bn (or 68%) was tendered back. In 1978 the value of demonetization was very small (only 0.1% of GDP). However, the 2016 demonetization effort covers 86% of the total currency in circulation (11% of GDP). On 8th November 2016 night at 8.15 P M Prime Minister of India Mr. Narendra Modi in his unscheduled television address to the nation announced that the currency notes of 500 and 1000 denomination will not be a legal tender money from midnight. Government took this step of demonetizing the currency as a tool to fight against black money and corruption in Indian Economy

KEYWORDS: demonetization, cashless transactions, credit, tax evasion etc.**I. INTRODUCTION**

Demonetization is the process of removing currency from general usage or circulation. In India's case Government completely withdrawn the currency with the denomination of 1000. Along with 1000 currency notes 500 rupee notes were also withdrawn from circulation. For the old 500 currency notes new 500 rupee notes will be issued and a new currency note of 2000 denomination has been introduced in the economy. New currency notes issued to the public through commercial banks and post offices across India by depositing the demonetized currency notes by the people. According to the RBI's (Reserve Bank of India) Annual Report for April 2015 to March 2016, the value of the currency notes at the end of March 2016 was 16.42 trillion Indian rupees. The 500 rupee and 1,000 rupee currency notes formed 86.4% of the value. In one stroke, the government removed 86.4% of the currency in circulation by value. In terms of volume, the currency notes of these two denominations formed 24.4% of a total 90.27 billion pieces.

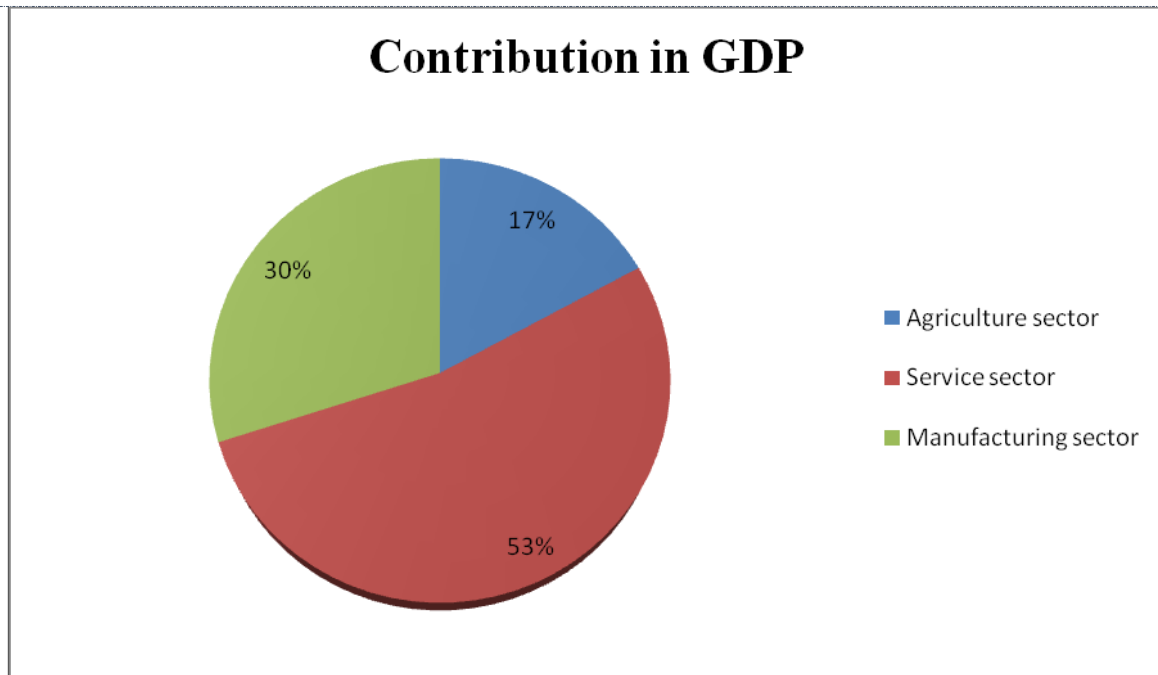
Now we talk about the impact of Demonetization on Indian Economy Sector. First economy can be bifurcated in three broad segments Agriculture Sector, Manufacturing Sector and Service sector all these three sectors contributed in Indian GDP.

Agriculture Sector Contribute 17% in GDP

Manufacturing Sector Contribute 30% in GDP

Service Sector Contribute 53% in GDP

After Demonetization all the three sectors faces negative impacts



II. DEMONETIZATION IN INDIA

This is not for the first time Government Demonetizing the currency. Earlier to this India has witnessed demonetization twice. For the first time demonetization took place in pre independence period. In January 1946, for the first time demonetization took place in India. During this demonetization currency notes of 1000 and 10000 rupees were withdrawn from the circulation and new currency notes of 1000, 5000 and 10000 denomination rupees were introduced in the year 1954. On 16th January 1978, Government of India Demonetized the currency notes of 1000, 500 and 10000 rupee notes as a means to counterfeit money and black money. The present demonetization is the third occurrence in Indian Economy and it is the second Demonetization in the post-independence period.

- India has carried out demonetization twice before – in 1946 and 1978 – no data for 1946
- In Jan-1978 exercise, currency worth Rs 1.46 bn (1.7% of total notes in circulation) was demonetized. Of this RS 1.0 bn (or 68%) was tendered back

The impact of the demonetization exercise was as follows:

Variable	Impact
Deposit Growth	Rose sharply
Currency in Circulation	Moderated sharply
SLR Securities	Sharp increase in investment in Government securities by banks
Credit Growth	Initially subdued but started picking up after 4 months (by May 1978)
GDP Growth	No major impact as high –demonetization notes which were cancelled only accounted for 0.1% of GDP

In 1978 the value of demonetization was very small (only 0.1% of GDP). However, the 2016 demonetization covers 86% of the total currency in circulation (10% of GDP). Hence, this is a substantially more widespread exercise which will have far reaching implications.

III. OBJECTIVES OF THE STUDY

- ❖ To analyze the impact of Demonetization on GDP.
- ❖ To analyze the impact of Demonetization on different sectors of economy.
- ❖ To analyze the future impact of Demonetization on Indian Economy.

IV. IMPACT OF DEMONETIZATION ON INDIAN ECONOMY

Government of India demonetized the currency as a tool to fight against corruption and black money, which are the major problems of Indian economy. The present demonetization will be having some effects on Indian economy. Some of the major effects of demonetization are as follows.

Effect on Parallel Economy

One of the major objectives of the demonetization is to fight against the black money. With the demonetization the black money within the economy will be blocked as the owners of the black money in the form of 500 and 1000 rupee notes cannot replace it and deposit it in the banks as it is not having the proper documents. In this way the parallel economy will be affected to a greater extent which is the positive impact of demonetization.

Short Run Effect on Money Supply

Money supply will be reduced in the market due to withdrawal of currency notes from circulation. This effect will be the short run impact of demonetization. The problem of money supply will be solved when the new currency notes widely circulate in the market.

Effect on Consumption

Decrease in money supply as a result of demonetization is also having an impact on production and consumption. Due to decrease in money supply production decreases and it affects consumption negatively.

Fall in the Prices

Prices for different goods will fall with demonetization of currency. The prices of consumer goods and the prices of real estate sector are expected to fall.

Increase in Bank Deposits

The demonetization increases the deposits in current account and savings bank account. As government announced the demonetization, the money held by the household sector for the emergency purposes will be deposited with the banks, which will increase the deposits in the banks.

Increase in Alternative Modes of Transactions

Due to demonetization the cash transactions are facing a reduction, which increases the other alternative modes of transactions like use of credit cards, debit cards, online payments and transactions etc.

GDP will Decrease in the Short Run

GDP will be hurt due to the demonetization. GDP of India may fall as a result of demonetization. The extent of fall may be very less and it exists only for a short duration of time. This fall may not affect the growth of the economy.

Effect on Anti-Social Activities

Demonetization is a mighty blow on the anti-social activities. Due to the demonetization funding of anti-social activities, smuggling can be curbed. These anti-social activities weaken the economy. It is difficult for the anti-social activists to recover from this. So the anti-social activities can be curbed to a greater extent.

Effect on Other Units of the Economy

Demonetization will have short run impact on agriculture, small traders, small vendors etc. as agriculturists are dealing with the perishable commodity, not having other mode of payment other than cash transactions and lack of demand will affect the farmers negatively.

V. CONCLUSION

The present study shows the impact of demonetization on Indian economy's different sectors. GDP of Country slightly decreases as compared with the previous year but we cannot say it will be same in future also. —This intervention is a one-time draining of this current stock of black money but unless the root causes of corruption are removed, corruption will continue. Demonetization in Indian economy is having negative impact on the different sectors of the economy. Majority of the negative effect are short run effects. All these effects are solved when the new currency notes are widely circulated in the economy. On the other hand people are facing some problems in the exchange of currency notes. Even though people are facing such a problem people are



ready to bear these problems for its positive effect on the economy. If government successfully clears all the problems, drawbacks associated with the demonetization, this demonetization will become the successful economic revolution in India and we can expect a better tomorrow with corruption free India.

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