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IMPACT OF DEMONETIZATION ON INDIAN ECONOMY



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Abstract

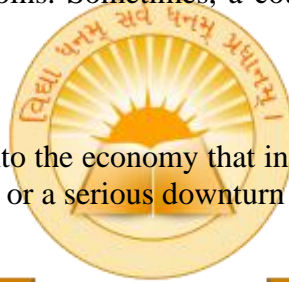
Demonetization is a process by which a series of currency will not be legal tender. The 8 November 2016 was a shocking day for the population of India when the government announced that the Rs.500 and Rs.1000 notes will not be a legal tender.

The aim of the demonetization is to eradicate black money, putting an end to fake currency circulation, stop funding terrorism, transparency in dealings and a move towards cashless economy. It is true that the demonetization has paved way for digital banking trend in India. This research paper aims at giving an overview of demonetization impact on Indian economy & its sector it also gives an idea about the cashless economy which may change by the introduction of demonetization.

Meaning of Demonetization

Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency: The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Sometimes, a country completely replaces the old currency with new currency.

Demonetization is a drastic intervention into the economy that involves removing the legal tender status of a currency. Demonetization can cause chaos or a serious downturn in an economy if it goes wrong.



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Objectives of Demonetization

The unearthed black money may also expand the fiscal space of the government.

- It may help formalize India's informal economy, reduce the extent of cash transactions, and help in the creation of a less-cash economy.

It may help to control circulation of fake money.

To restrict & reduce the supply of money, used for anti- social activities.

To run cashless economy in the country.

- To curb corruption.



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Impact of demonetization

In a country where 85% of transactions take place by cash, cancelling the legal tender character of two high denomination banknotes arises a lot of questions. The service sector in the country that depends mostly on cash transactions will be adversely hit because of Demonetization. Not to mention, the consumption activity of India has come to a screeching halt. This drop in economic activity could last for a few months and as a result, GDP could fall significantly from the previous year's values.

Even as country faces the greatest financial crunch of all times, some analysts predict the economic conditions to stabilize in a few quarters. Deutsche bank and Goldman Sachs expect India to join the list of the fastest growing economies by next fiscal year. An improved monsoon season in 2017 can favor agricultural economy of the nation, which in turn will add to the financial recovery as a whole. Economists also predict that the decision to scrap high-value currency notes will lead to GDP growth by 2%.

It may affects many sectors which are as under:

• 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 holder's demand large sums of cash.

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



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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 bullion market

Demonetization is expected to bring sharp changes in the prices of gold, and it is likely to start reflecting from the first quarter of 2017. At present, gold rates are not being announced by most of the jewelers due to dampening trade. Recently, government also announced the exemption limits on gold ornaments as the next giant move to curb black money. The notification comes within weeks after invalidation of Rs.500 and Rs.1000 notes. The following restrictions have been placed on the possession of gold:

- A married woman in India cannot keep more than 500 grams of gold in custody
- The limits for unmarried women are 250 grams
- Male members of the family can keep only 100 grams of gold
- The rule is not applicable for legitimate gold belongings

On real estate

The unorganized sector will be largely affected by the invalidation of the higher denomination currency notes. However, there won't be much of a change in the primary real estate market as property buyers make purchases either in the form of cheques or through loans. The impact of Demonetization may be felt in secondary markets where most of the property dealings happen through cash. The currency reform is likely to yield positive results in the real estate sector with increased transparency in dealings. More opportunities can be expected from debt investment, private equity, and FDIs as well.



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Research objectives

To study the overall effect of demonetization on the different sectors.

To examine the real goal of Demonetization that is a step towards cashless economy..

To study whether the objectives of demonetization are fulfill or not.

Literature review

1. **Ahram and Karwowski (2018)** : demonetization is an extreme step and it does not happen without a purpose or neither happens in a vacuum. However, to understand the term demonetization, it is necessary to understand what is meant by money. While there is no universal definition for money, but it is a known as a mode of payment. It is the lubricant that facilitates exchange. While the monetization is the process through which money is effectively serving as a medium of exchange, on the contrary, demonetization connotes the withdrawal of the currency in circulation in terms of making it legally ineffective in the transactions. Demonetization indicates that the legally banned currencies cannot be used for customers or businesses in any form of transactions or be stored for value in the future.
2. **Uke(2017)** : Demonetization is the act of changing the existing currency into a new form. In the demonetization, the old currency is replaced by a new form of currency. In simple, the demonetization can be denoted as the introduction of new units of currency or fully replacing the old unit with new units. Another aspect that needs to be considered in demonetization is the remonetisation that primarily follows the demonetization and involves reintroduction of the currency in the market.
3. **Singh and Singh (2016)**, India has the highest level of currencies in circulation accounting for about 12.1% of the GDP of the country. It has determined that significant portion of household cash in hand is not reported to the tax authorities and thereby giving rise to corruption. Scrapping of the higher currency value resulted in the people brining the money into the system at the right time or leaving the money devalued
4. **Muthulakshmi and Kalaimani (2018)**, wherein it was noted that the prime reasons for the demonetization is to promote a cashless economy, eradicate the use of counterfeit currency, and to crackdown terrorism among others. It has been noted that demonetization is not a new phenomenon either for India or the world. Various governments across the world have earlier decided to ban currency notes in the circulation and thereby rendering huge amount of cash, useless overnight. India has experienced the demonetization twice before as well. The first demonetization in the country was in the year 1946 when the currency notes of Rs 1000, Rs 5000 and Rs 10000 were taken out from the circulation. This included the demonetization of



the highest currency notes ever printed by the Reserve Bank of India. The second demonetization occurred in 1948 with the demonetization of Rs 1000, Rs 5000 and Rs 10000 again after the reintroduction of the notes.

Research methodology

Research methodology is a way to systematically solve the research problem.

Research design	Exploratory research
Sources of data	Secondary data
Data collection method	Publish documents and journal



Data analysis & interpretation

❖ Demonetization and Indian financial sector

- As per the monetarism view, main impact of the demonetization leads to the a huge drop down In economic activities and stock market for some period of time here that thing related to the money supply Because this phenomenon creates that more money supply in the market, in turn resulting into rise in stock prices i.e. positive relationship
- But, the previous experiences of India related to demonetization had produced mixed response in terms of impact on Indian stock market...like
- 1946: The stock market reacted negatively
- 1978: The stock market reacted positive
- 2016: An event study utilized the daily data of BSE 200 stock index and revealed a 9 percent reduction in the shareholders' wealth during eight trading days immediately after the announcement of the demonetization (short-run)



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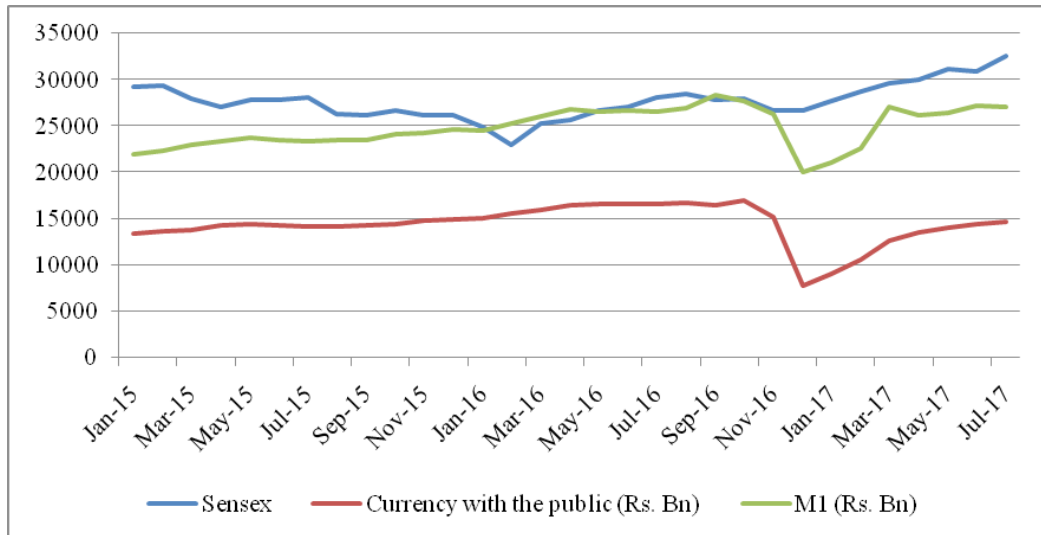
- so, the real side impact of any demonetization move will also depend upon the relative share of connected and unconnected sectors of the economy

Money Supply and Indian Stock Market (in billions)

Month	Sensex	Public	M1
Jan-15	29182.95	13416.6	21850.1
Mar-15	27957.49	13863.5	22916.8
May-15	27828.44	14616.2	23531.9
Jul-15	28114.56	14385.6	23346.6
Sep-15	26154.83	14214.6	23589.6
Nov-15	26145.67	15078.8	24376.4
Jan-16	24870.69	15094.7	24547.4
Mar-16	25341.86	15690.8	25483.6
May-16	26667.96	16781.0	26418.6
Jul-16	28051.86	16784.7	26643.9
Sep-16	27865.96	16600.9	27139.2
Nov-16	26652.81	15262.3	26236.9
Jan-17	27655.96	8112.3	20214.8
Mar-17	29620.5	11309.0	23441.2
May-17	31145.8	14035.6	26442.7
Jul-17	32514.94	14660.5	26936



Money Supply and Indian Stock Market



- A While on the other hand Demonetization has led to increase of cash flows in banking system. This liquidity is also expected to move to Mutual Fund as Investment.
- One of the objectives of the Indian government behind the demonetization that bring that narrow money that public having as a cash. Because one survey state that prior to demonetization, the Indian public held cash equal to 62% of India’s M1 money supply. In contrast, the U.S. public held less than 0.1% cash relative to M1.
- In chart, The ratio of public currency to narrow money (M1) had declined to 40 percent by the month of December 2016, further that will increase but in less compare to prior demonetization
- Also, Even the demand deposits had witnessed the jump quickly and gradually came down but still higher than the pre demonetization level That all thing result into the growth of banking an economy as whole.

❖ **Impact of demonetization on different sectors**

- The index of industrial production is the demand side indicator in the economy. The comparison in the indices of IIP is presented based on sectors and based on use-based classification.
- The year on year comparison of index number for December 2015 and Dec 2016 is worth-full. Also the comparison of Jan to May 2017 IIP is compared with same period of previous year.
- The comparable figures for first half (H1) of 2017 over the 2016 reports the marginal increase in general



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index.

- In the same period the growth of 2016 was noticeable compared to 2015. It can be inferred that the demand side indicators have slowed down after the demonetization.
- The manufacturing sector having three fourth weight in the overall index computation has noticed least increase. However the mining and electricity has seen the significant surge.
- The same can be confirmed that if we make the comparison between the index values for year 2015 and 2016, it is observed that the index value has got momentum in every month of 2016 but showed a relatively lesser increase in the index value in December 2016 compared to same period of previous year.
- It can be argued that demonetization has halted the growth momentum of industrial production. More surprisingly the manufacturing sector has seen no gain in the post demonetization period as compared to same period of earlier year.
- Here comparison between mainly in two quarters i.e. 3rd and 4th quarters of the year 2015-16, 2016-17 that shows a demonetization leads to the drop down in major sectors in the economy.
- Reason behind the same that is the scarcity of the notes can be assumed here under Growth Rates (Y-o-Y) in Quarterly Estimates of Gross Value Added (%) that shows the overall idea regarding in the same.

Table 2: Growth Rates (Y-o-Y) in Quarterly Estimates of Gross Value Added (%)

Quarter	Q1			Q2			Q3			Q4		
	2014-15	2015-16	2016-17	2014-15	2015-16	2016-17	2014-15	2015-16	2016-17	2014-15	2015-16	2016-17
Industry/ Year												
Agriculture, Forestry and Fishing	3.52	2.41	2.52	4.98	2.32	4.07	-1.56	-2.12	6.85	-0.08	1.54	5.16
Mining & Quarrying	17.77	8.29	-0.93	3.81	12.19	-1.28	6.76	11.72	1.86	10.05	10.49	6.4
Manufacturing	9.18	8.17	10.72	8.69	9.29	7.73	3.22	13.19	8.15	6.78	12.65	5.27
Electricity, Gas, Water Supply & Other Utility	8.13	2.78	10.29	8.72	5.67	5.07	6.44	4.03	7.44	2.41	7.62	6.08
Construction	3	6.22	3.08	3.32	1.55	4.28	2.41	6.04	3.39	0.99	5.95	-3.67
Trade, Hotels, Transport, Communication and Services Related to Broadcasting	9.26	10.31	8.89	6.24	8.26	7.75	4.11	10.07	8.28	11.58	12.8	6.45
Financial, Real Estate and Professional Services	10.28	10.06	9.39	14.37	13.01	7.01	14.17	10.48	3.26	11.45	9.03	2.18
Public Administration, Defence and Other Services	1.53	6.25	8.57	7.19	7.17	9.55	21.77	7.48	10.26	1.33	6.7	16.99
Total Gross Value Added at Basic Price	7.26	7.59	7.56	8.27	8.2	6.77	6.37	7.29	6.65	6.13	8.65	5.57



❖ Impact on the real GDP

- **Real gross domestic product** (real GDP for short) is a macroeconomic measure of the value of economic output adjusted for price changes (i.e. inflation or deflation).
- This adjustment transforms the money-value measure, nominal GDP, into an index for quantity of total output. Although GDP is total output, it is primarily useful because it closely approximates the total spending: the sum of consumer spending, investment made by industry, excess of exports over imports, and government spending.
- Due to inflation, GDP increases and does not actually reflect the true growth in an economy. That is why the GDP must be divided by the inflation rate (raised to the power of units of time in which the rate is measured) to get the growth of the real GDP.

Real GDP growth rate

Financial Year	Quarter	Quarterly	Yearly
2015–16	Q1 (April–Jun)	7%	8%
	Q2 (July–Sep)	7.40%	
	Q3 (Oct–Dec)	7.20%	
	Q4 (Jan–Mar)	9.10%	
2016–17	Q1 (April–Jun)	7.90%	7.10%
	Q2 (July–Sep)	7.50%	
	Q3 (Oct–Dec)	7%	
	Q4 (Jan–Mar)	6.10%	
2017–18	Q1 (April–Jun)	5.70%	6.50%
	Q2 (July–Sep)	6.30%	
	Q3 (Oct–Dec)	7.20%	
	Q4 (Jan–Mar)	7.60%	

Global analysts cut their forecasts of India's real GDP growth rate for the financial year 2016–17 by 0.5 to 3% due to demonetization. India's GDP in 2016 is estimated to be US\$2.25 trillion, hence, each 1 per cent reduction in growth rate represents a shortfall of US\$22.5 billion (₹ 1.54 lakh crore) for the Indian



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economy. quarterly GDP growth rates would drop below 7% for an entire year at a stretch for the first time since June 2011.

- The Q4'16–17 rate was 6.1% as against a forecast of 7.1% by economists The rate for the financial year 2016–17 was 7.1%, a reduction from the 8% in 2015–16. This drop was attributed to demonetization by economists.
- The GDP growth rate for Q1'17–18 dropped to 5.7%, compared to 7.9% a year ago, the lowest since March 2014. This drop was attributed to demonetization as well as inventory drawdown by companies due to the forthcoming implementation of the Goods and Service Tax. The GDP started to recover from Q2'17–18 and clocked 8.2% in Q2'18–19.

➤ Impact of demonetization on tax collection

- Taxation is different from other sources of revenue as they are compulsory payments which are to be made and not optional.
- Taxes have an income effect as there is a decrease in purchasing power. Taxes also increase the actual price of the goods.
- In simple, term tax is a main income of the government also can say that is the backbone of the any economy.



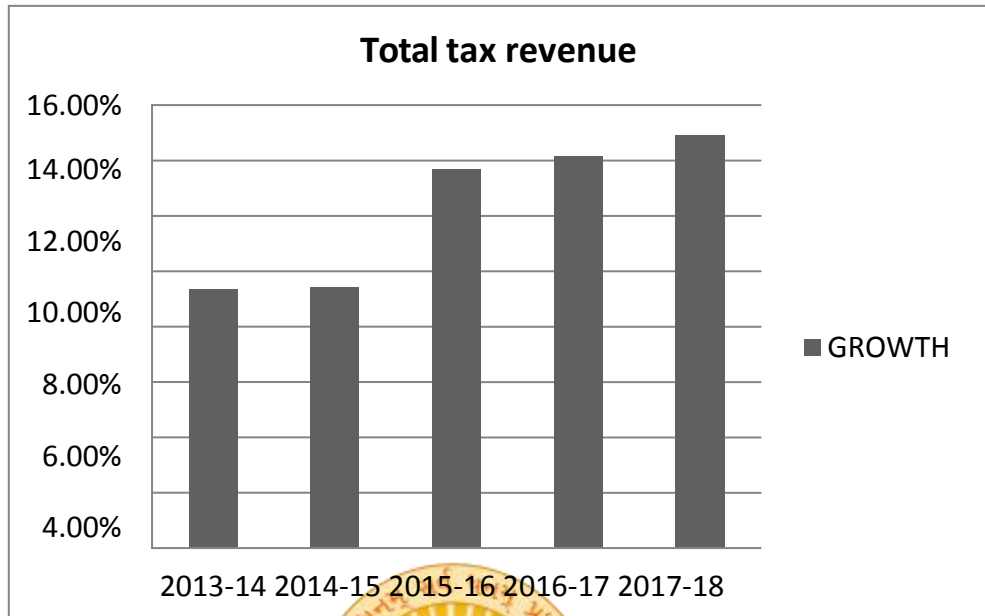
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➤ Impact of Demonetization on total Tax Revenue

Total tax revenue (in billions)		
YEAR	GROWTH	REVENUE
2013-14	9.35%	18465.45
2014-15	9.43%	20207.28
2015-16	13.67%	22971.01
2016-17	14.15%	26221.45
2017-18	14.91%	30132.23



- This table gives the information of total Tax revenues collected by the country and the growth rates from the year 2013-14 to the year 2017-18



The Tax revenue in the year 2016-17 is Rs.26221.45 billion and have a growth of 14.5% from the previous year. Tax Deducted at Source and Advanced taxes contributed for the increase in the tax revenue.

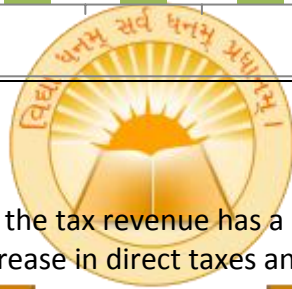
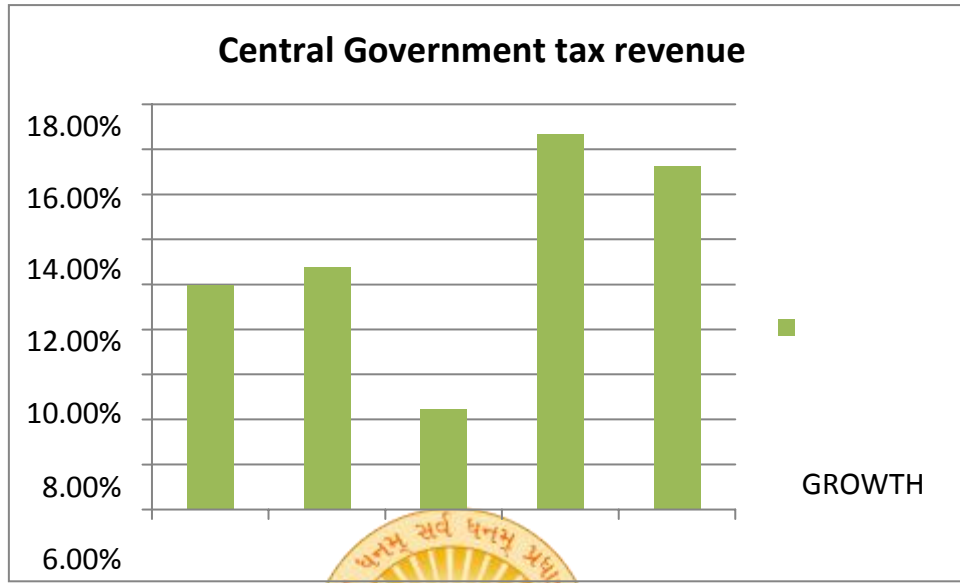
But there is no much growth seen in the year 2016-17 after demonetization. And demonetization did not impact much in the tax revenues. The growth rate is also stabilizing after demonetization.

Central Government tax revenue

Central Government tax revenue(in billions)		
YEAR	GROWTH	REVENUE
2013-14	9.97%	8518.54
2014-15	10.75%	9036.65
2015-16	4.44%	9437.65
2016-17	16.69%	11013.72
2017-18	15.26%	12694.54



- Here in table The central government revenue in the year 2015-16 had seen a low growth rate because of low because of the decrease in indirect taxes contribution to the Central Government Tax Revenue.



- As per the research after demonetization, the tax revenue has a high growth of 16.69% which is high since 2013-14. The growth is because of the increase in direct taxes and the newly introduced schemes by the government of India

➤ **Direct taxes**

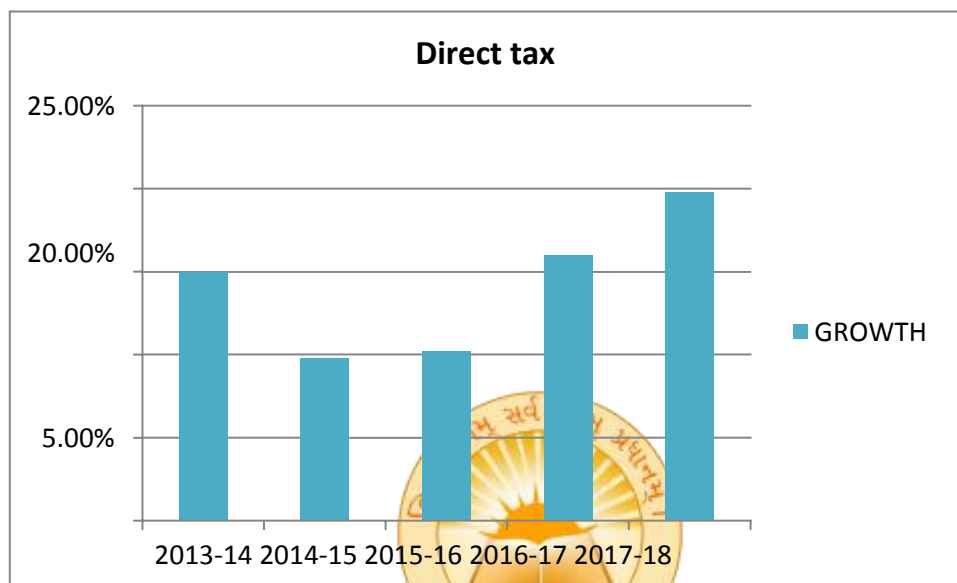
Direct tax (in billions)		
YEAR	GROWTH	REVENUE
2013-14	14.94%	4558.29
2014-15	9.81%	5005.31
2015-16	10.24%	4492.96
2016-17	16.02%	5212.87
2017-18	19.81%	6245.64

- Direct taxes before demonetization faced a very low growth in the year 2015-16 as the educational cess



and surcharge increased.

- As per the income tax department in 2016-17 they collected 5212.87 billion as a direct tax which is 16.02% and it is highest since 2013-14 Personal income taxes and taxes on corporate incomes also rose in the year 2016-17.



- As per chart, it is clear after there are hike in the tax collection in direct tax. Reason behind the same that are consists collection on account of Pradhan Mantri Grib Kalyan Yojana 2016, Income Declaration Scheme 2016 which were the schemes for declaring previous undisclosed income.

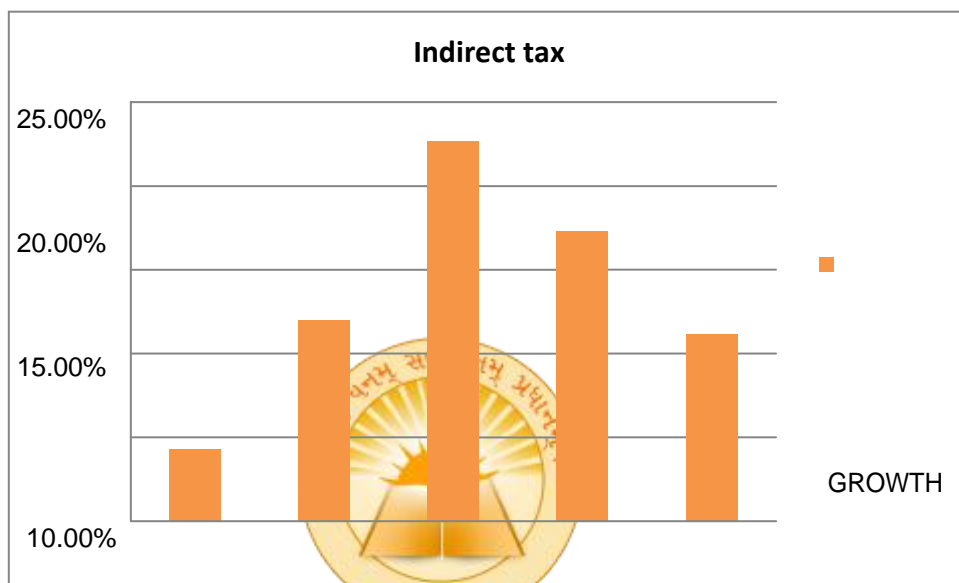
➤ Indirect taxes

Indirect tax (in billions)		
YEAR	GROWTH	REVENUE
2013-14	4.26%	3600.25
2014-15	11.96%	4030.85
2015-16	22.67%	4944.7
2016-17	17.31%	5800.85
2017-18	11.17%	6488.9



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- This table shows the indirect tax revenue and growth rate from the year 2013-14 to 2017-18. Indirect taxes had a high growth in the year 2015-16.
- The increase in the taxes is because increase in the registrations for Sales taxes. Sales taxes from all the states increased this year. Purchasing power of the consumer also reduced.



- After demonetization, there was a decline in sales and there was an economy called as grey economy where everything in the economy was declining.

➤ Tax Payers

- Prior to 2014, 3.8 crore people had filed their returns, this number increased to 6.8 Crore people come forward to file returns. Today tax payer is confident that each paisa of him is spent honestly by the government.
- Nov 2017 according to economic survey 2017, Tax payer's level increase by 31%. there was significant statistical difference which has a lot of advantage. There were 1.8 million additional tax payers after demonetization (2016-17) and GST (2017-18).



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➤ **Demonetization solve an issue of Counterfeit banknotes**

- Demonetization another object to solve the issue regarding the counterfeit bank notes which had been took place in the Indian market and that resulting into the inflation in the Indian economy. After demonetization some of the extent issue is solved that figure as given below,
- One of the primary justifications behind demonetization was that the Indian economy was suffering from a prevalence of fake or counterfeit notes.
- Here overall data regarding a counterfeit banknotes given below

Demonetization	2015-16	2016-17	2017-18
₹1	2	3	4
₹2 and ₹5	2	80	1
₹10	134	523	287
₹20	96	324	437
₹50	6,453	9,222	23,447
₹100	2,21,447	1,77,195	2,39,182
₹200	0	0	79
₹500 (old)	2,61,695	3,17,567	1,27,918
₹500 (new)	0	199	9,892
₹1000	1,43,099	2,56,324	1,03,611
₹2000	0	638	17,929
Total	6,32,926	7,62,027	5,22,783

Here only 500(old), 500 (new),1000 and 2000 notes consider for the analysis purpose so,



Here in chart, In terms of 100 notes, 2, 21,447 fake pieces were detected in 2015-16, which slumped to 1,77,195 in 2016-17 (the year of demonetization) but then bumped back up to 2,39,182 in 2017-2018.

- The new Rs 2,000 note – which was initially believed to have come printed with better security measures – was also not immune to counterfeit. Data presented in the RBI’s annual report show that while only 638 pieces of fake Rs 2,000 notes were detected in 2016-17, it jumped up to 17,929 pieces (worth Rs 36 million approximately) in 2017-2018.
- While overall detection of counterfeit notes was 31.4% lower than the previous year, this was because of a decrease in fake Rs 500 and Rs 1,000 notes, which were of course banned in November 2016. In fact, the new Rs 500 notes that were issued have seen a bump in terms of counterfeit detection (199 pieces in 2016-17 to 9,892 pieces in 2017-18). So, base on the figure here that prove that some of the risk would covered by the government after taking a such decision

➤ Impact on cashless economy

- A cashless economy is one in which all the transactions are done using cards or digital means. The circulation of physical currency will become minimal and there by reduced instances of tax avoidance
- It will also curb generation of black money and will reduce real estate prices because of curbs on black money as most of black money is invested in Real estate prices which inflates the prices of Real estate



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markets.

- It will pave way for universal availability of banking services to all as no physical infrastructure is needed other than digital. Payments can be easily traced and collected, and corruption will automatically drop, so people will no longer have to pay to collect what is rightfully theirs.
- Government on its part is working at various levels to reduce the dependence on cash. National Payments Corporation of India (NPCI) was set up by Indian banks under the aegis of the Indian Banks 'Association and the guidance of the RBI to provide centralized infrastructure for various retail payment systems in the country, including card payments.
- NPCI is expected to bring greater efficiency by way of uniformity and standardization in retail payments and expanding and extending the reach of both existing and innovative payment products for greater customer convenience.
- Though it will take time for moving towards a complete cashless economy, efforts should be made to convert urban areas as cashless areas. As 70% of India's GDP comes from urban areas if government can convert that into cashless it will be a huge gain.
- The recently launched Unified Payments Interface by National Payments Corporation of India makes digital transactions as simple as sending a text message.
- The government has announced incentives including waiving service taxes on digital payments, discounts on purchases (petrol, railway tickets, highway tolls), and more.
- A high- level committee of chief ministers has been formed to develop a roadmap for increased use of digital payments in the economy. The different methods of digital payments are:

- a. **Immediate Payment Service (IMPS)** is an instant interbank electronic fund transfer service through mobile



phones. It is also being extended through other channels such as ATM, Internet Banking, etc.

- b. **Unified Payment Interface (UPI)** is a single window mobile payment system launched by the National Payments Corporation of India (NPCI).
- c. **Any card** issued against a depositary account, such as an ATM card or a debit card. Sometimes the phrase is also used to refer to Visa and MasterCard, since these are also issued by banks, but they are credit cards and not linked directly to a depositary account.
- d. **Mobile banking** refers to the use of a Smartphone or other cellular device to perform online banking tasks while away from your home computer, such as monitoring account balances, transferring funds between accounts, bill payment and locating an ATM.

Here under the data given for the digital payments in India



Electronic payments (value in Crores)

Period	NEFT	IMPS	UPI	Debit and Credit cards at POS	Prepaid payment instrument	Mobile banking	Total
Nov 2016	8,80,784	32,480	91	35,236	1,321	1,24,485	10,74,396
Dec 2016	11,53,763	43,192	700	52,224	2,125	1,36,588	13,88,593
Jan 2017	11,35,508	49,125	1,659	48,124	2,099	1,20,666	13,57,181
Feb 2017	10,87,791	48,221	1,902	39,147	1,874	1,08,000	12,86,938
Mar 2017	16,29,450	56,468	2,091	41,624	2,148	1,49,989	18,82,071
Apr 2017	12,15,617	56,206	2,199	43,136	2,233	1,44,375	14,63,766
May 2017	12,41,081	58,559	2,765	45,085	2,526	1,94,065	15,44,081
Jun 2017*	8,79,616	48,982	2,553	34,890	2,011	92,258	10,60,310

- It is evident from the above table that the transactions through the NEFT have shown a fluctuating trend during November 2016 to June 2017.



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- Usage of NEFT has been gradually increased during the period of demonetization and even after that.
- The initiative of bringing awareness on UPI has been successful, as it has exhibited a remarkable increase from 91 transactions in November 2016 to 2553 transactions in 2017. The electronic payments have been at its highest during March 2017.
- It is also understood that there is slow decline in electronic payments after March 2017.

Findings

- In financial prospective money is the blood of an economy, behind demonetization on object that government wants fluctuate the cash which public kept as a cash, that is full filled as well as bank would get the enough money to sustain in the market. Public also invest that money in the different sectors, mutual fund and other investment avenue. As per research high cash fluctuation have been shown in the time of the demonetization.
- In different main sectors, there were a slightly slope down for sometime behind that main reason are less money supply or scarcity of the notes there also some confusion in mind of the population of India
- And if we talk about the GDP growth if industrial production and growth had been decline so GDP also drop down also the statistic data it proved.
- Now talk about the tax collection or revenue of the government in the direct as well as indirect tax both had been increase and also that was the highest collection till now.
- Counterfeit notes one of the major issue of the Indian economy that leads to the inflation in the country so that such a step like demonetization also that leads to the effective step of the some extent that issue solved.
- Major object behind digitalization evolution in India. But as per reaserch till now Indian population still prefer cash then plastic money and digital money.



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Conclusion

Some of the economic and social costs of the demonetization decision are summarized below:

- India's GDP growth slipped to a three-year low of 5.7% in the first quarter (April- June) of fiscal 2017-18. The disruption caused by demonetization played a role in the slowdown along with other factors such as GST (goods and services tax) destocking. Demonetization had a debilitating impact on India's vast informal sector, which employs more than 90 percent of country's workforce. The cash crunch badly affected the daily wage laborers, street vendors and informal sector workers who rely solely on cash for income and expenditure. There are several reports highlighting the massive job losses in the labor-intensive sectors in the aftermath of demonetization.
- Consumer confidence fell sharply during demonetization. The much anticipated pickup in discretionary consumer spending has not been observed despite demonetization.
- Credit growth witnessed a historic low of 5.1 percent during the second half of 2016-17. In particular, bank loans to rural areas were badly affected as the growth in rural loans plummeted to 2.5 percent.
- As part of demonetization of currency notes, the RBI had to incur massive expenditure on the printing of new currency notes. The costs of printing new notes were Rs 79,650 million, about 133% higher than the previous year. It also contributed to the decline in the RBI's surplus payable to the central government from Rs 658,760 million in 2015-16 to Rs 306,590 million in 2016-17.
- The hasty implementation of demonetization move resulted in long queues outside bank branches as people waited for hours to deposit and exchange the demonetized notes.

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