



DEMONETIZATION AND ITS IMPACTS

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ABSTRACT: - On 8 November 2016, the Government of India announced the Demonetization of all 500 and 1000 banknotes of the Mahatma Gandhi Series. The government claimed that the action would curtail the shadow economy and crack down on the use of illicit and counterfeit cash to fund illegal activity and terrorism. Demonetization is an act of cancelling the legal tender status of a currency unit in circulation. Anticipating positive changes on the liquidity structures as a whole, nations often adopt Demonetization at some or the other point to control situations such as inflation and to boost economy. In November, Indian government banned the high denomination notes of Rs 1000 and Rs 500 as move to curb counterfeiting and money laundering. The changes did invite a lot of trouble to public in the beginning but it all seemed worth that, as far as the long terms effects were concerned.

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KEYWORDS: - Demonetization, positive and negative impacts

INTRODUCTION: - Demonetization is the process of withdrawal of a particular form of currency from circulation. It becomes necessary whenever there is a change in the national currency. The old unit of currency must be retrieved and replaced with a new currency unit. It involves either introducing new notes or coins of the same denomination or completely replacing the old denominations with the new denomination which is usually carried out as an ambush on the black market. The opposite of demonetization is remonetization, in which a form of payment is restored as legal tender. There are several economic as well as social impacts of demonetization. it can reduce inflation, improve the economy, and result in financial behavior change among citizens. However, if not managed well, it may cause a lot of economic hardships to the people. How the process is managed immensely determines its effects on the economy of a country.

OBJECTIVES OF THE STUDY: -

- 1 To understand the concept of demonetization
- 2 To discuss the positive points of demonetization
- 3 To study the negative points of demonetization
- 4 To explain its effect on different factors

POSITIVE IMPACTS OF DEMONITISATION: -

1 OVER HAWALA TRANSACTIONS: -Demonetization has badly affected the hawala rackets. Hawala is a method of transferring money without any actual money movement. Intelligence reports indicate that hawala route is mainly used as a means to ease money laundering and terror financing.



With black money suddenly being wiped out of the market hawala operations have come to a constant halt.

2 CLOSURE OF SHELL COMPANIES: - The government has deregistered over 2 lack shell companies with doctored accounts based on data mined from demonetization, indicating the government's intent to go after tax dodgers. These companies were used to funnel black money by obscuring the source of slush funds.

3 END OF FAKE CURRENCY: - As per the ISI (Indian Statistical Institute), the circulation of fake currency in Indian economy is Rs 400 crores at every point of time. It was also stated that the Rs 70 crore fake currency also being injected every year to Indian economy. Demonetization will be able to reject fake notes and also people now will not be able to circulate old previous notes.

4 IMPACTS ON FINANCIAL INCLUSION: - The inflow of cash into the banks will enable them to offer subsidized loans and other facilities to Jan dhan account holder. The share of Jan dhan accounts in total deposit base of the banking system is under 1%. The demonetization drive of higher denominated notes might propel cash deposits in Jan dhan accounts. And this move will also make Jan dhan account holders to be accustomed to banking system.

5 HARD MONEY TO DIGITAL MONEY: - Through, it is the first of its kind, but we may have to face these surgical strikes on black money in the future too. This will give some time to people to understand the need of digital money in the current era. We have been seen some inspiring pictures where vegetable seller is accepting money via Paytm. India is changing.

6 REAL ESTATE CLEANSING: - It is said that real estate is an industry built on black money. The extent of black money floating around in the sector is huge. According to an estimate at least 40% of real estate transactions in Delhi- NCR are in black. Modi's demonetization move will curtail the flow of black money into the real estate sector. This will help in making the much need correction in the sector. The impact: An unexpected dip in land and property prices.

7 INCREASED INCOME TAX REVENUE: - It would be an exaggeration to say that all black money holders will deposit all of their stored cash into bank accounts. But they will also not let their hard- earned cash to become worthless paper. And whatever they will do it will convert their black money into white, at least for once. Someone is surely going to pay income tax on that amount. It will drastically from tax.

NEGATIVE IMPACTS OF DEMONETISATION: -

1 RUNNING OUT OF MONEY: - though, everyone needs new currency notes, it is very hard to provide cash on time, even by RBI. Because, there is a limit on printing currency notes. Government just can't order RBI to print new notes as per requirement. There is a regulatory system which guides RBI and Indian government how much new currency notes should be printed other country has to face



some serious issues like, inflation. So, government will not be able to provide enough money to banks to pass on to consumers. It will create uncertainty.

2 ADVERSE IMPACT ON INFORMAL FACTOR: - players of informal sector as they mainly deal in cash only are facing tough time due to this demonetization scheme already. Sudden removal of cash from market put their business on a dormant phase. It is important to understand that their income is not black as they don't come under income tax slab because of less income which has become even lesser now.

3 SMALL BUSINESSES WORST HIT: - Small businesses were vanished/ worst hit by demonetization implementation in India. Cash payments to workers and employees is still a practice in small scale businesses. So as India faced cash crunch, small business units were not able to pay its workers. Workers also had to stand in long queues to withdraw/ exchange money in ATMs / Banks which of businesses had to limit their business activities and many of the small businesses suffered great losses with the demonetization process.

4 EMPTY ATM's: - Same as bank branches, queues on ATM's will also have to face same fate. Standing in long queues and returning with nothing will not please anyone.

DEMONETIZATION AT VARIOUS SECTORS: The different affected sectors are as follows: -

1 Real Estate: Real estate is arguably the most effected sector due to demonetization. Impact of demonetization is more prominent in unorganized sector comprising small builders and real estate agents. Due to demonetization, it has been assumed that the price will be reduced 30%-40% in property. In real estate sector, demonetization will bring increased transparency which is likely to improve the affordability at real estate in medium to long term.

2 E-Commerce: After demonetization, online payment is one thing that has been growing at good pace. There has been important growth mobile wallet sector. Now a day's transferring money and making payments for online orders is very easy with mobile wallet instead of COD (Cash on delivery) and online transactions do come with a lot of benefits.

3 Auto: Demand is likely to dip for a couple of months for two-wheelers, but passenger vehicles and tractors will be less impacted. In the two- wheeler industry, around 35-45% purchases are made via financing, while the rest are though banked cash or are simply unaccounted.

4 ENTERTAINMENT/RESTAURANTS: - One of the most common areas, where undisclosed income is utilized, is the entertainment and restaurants out there that accept credit and debit cards. Since a majority of the transactions are in cash form in here, it will be exciting to see how people react to it. Will they continue to opt for entertainment at the same scale that they did earlier or not.

5 IMPACTS ON BOND MARKET: - Indian banks witnessed over INR 11 lack Cr entering into the system till 30 November after the demonetization exercise kicked off on 8 November as per a CNBC report. This increase in deposits will create more demand for government bonds and other high- rated



bonds. This will lead to lower bond yields especially in the shorter end of the curve. This in addition to the reduction of scope for open market transactions.

6 BANKS: - The move towards a cashless economy will boost savings in financial assets. With any sharp infusion of deposits and relatively limited avenues to lend, the credit deposit ratio for banks would become unfavourable, and thus impact margins.

CONCLUSIONS: - In this paper we have discussed about the impact of demonetization in various sectors. It has been found that demonetization limits the short term growth of various industries except banking sector whereas if we talk about long term growth of industries, it is very encouraging step. Demonetization is very different step taken by the government of India, earlier this step is taken by few of countries when there is a down fall in economy but this is the first time when this step is taken by the country when the economy is stable. As it puts a parallel break economy that is called Black Money.

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