

Demonetization And Its Impact On Business And Economy

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ABSTRACT

An unthought open part development, absolutely a recorded move was attempted in the Indian economy, when on November 8, 2016 the prime minister declared the radical financial advance of demonetizing the Rs. 500 and Rs. 1000 notes available for use with new cash of division 500 and 2000 separately, suggesting that unit status of Rs. 500 and Rs. 2000 note as a lawful delicate was proclaimed invalid. The move was embraced with a genuine objective of destroy the issue of dark cash and building up a cashless society, advancing the utilization of computerized cash as individuals in India are more dependent on money than some other nation on earth. With the administration getting back to back 84% of its cash available for use, the quick effect of the move was unquestionably extraordinary, especially on every one of the business sectors dependent on money exchanges. Various divisions of the economy will have fluctuating effect in short run and long keep running because of this money related careful strike. This paper attempts to examine the effect on this proceed onward accessibility of credit and the business and economy on the loose. The primary spotlight is on effect of demonetization to put it plainly, short and long keep running on various divisions.

Keywords: Demonetization, Digital Money, Cashless Economy

INTRODUCTION

Demonetization

The etymology of the word demonetization can be credited to the French word- démonetiser (de+monetiser), meaning depriving (a coin or a precious metal) of its status as money. Thus, demonetization is a radical step taken by the government in which a currency's unit status as a legal tender is declared invalid implying that the series of currency is no longer a valid currency. A step like demonetization is taken up in any economy whenever there is change in national currency, replacing the old unit with the new one.

Demonetization in India

India has undergone the process of demonetization several times and the move of 2016 is not the first time in India that the legal tender of any currency has been declared as invalid. Various instances in the past have been seen whereby the currency of India has been changed, be it in the form of removing old currency or issuing a new denomination. In the past, the country has successfully implemented demonetization twice and the recent act of 2016 is the third time. Thus, we can categorize demonetization in following phases:-

- In 1946
- In 1978
- In 2016
- In 1946

Rs 500 and Rs 1000 notes were presented in 1934 in India and following four years, in 1938, Rs 10,000 notes came into picture. In 1946, the administration resolved to expel the Rs. 1000 and Rs. 10,000 notes in development. Many number of populace just utilized these notes and hence, the move was not a triumph and was a short time later defended as a push to contain the volume of banknotes in stream because of swelling. Notwithstanding, both the notes were later reintroduced in 1954. Additionally, an additional section of Rs 5,000 was presented.

▪ **In 1978**

A serious impressive move by then of time attempted by the administration was to demonetize Rs. 1,000, Rs. 5,000 and Rs. 10,000 notes so as to manage the issue of dark cash in the economy. Under the High

Denomination Bank Note (Demonetization) Act, 1978, all "high division certified receipts" stopped to be lawful delicate after January 16, 1978. Individuals having the notes were given time till January 24 that year to trade the high group monetary certificates.

▪ In 2016

Head administrator Mr. Narendra Modi on the night of November 8, 2016 in his location to the country, affirmed Rs 500 and Rs 1000 notes void so as to manage the issue of parallel economy, manufactured money available for use and fear financing which had taken profound roots in the nation. Be that as it may, the notes in division of Rs 100, Rs 50, Rs 20, Rs 10, Rs 5, Rs 2 and Re 1 and every one of the coins keep on being lawful delicate. The progression likewise observed the opening of new cash notes of Rs 2,000 and Rs 500. Different types of cash trades for example checks, request drafts, installments by methods for credit or charge cards didn't perceive any sort of change. Individuals who had the notes of Rs 500 and Rs 1,000 were allowed to store the equivalent in their banks and mail station accounts inside the particular timeframe for example from November 10 till December 30, 2016. Following, this progression, tremendous groups could be observers outside ATM's around the nation as individuals needed to pull back the cash of minor division. While, the progression of Indian government to kill 86% of its cash in development was effectively endorsed, individuals still confronted the difficulties in adjusting to it as there was no sufficient acquire of new notes put to occur of the old money. This unexpected upheaval of no liquidity in the market left a huge number of individuals without any way to associate monetarily suggesting engaging in the exercises of purchasing the things they needed and required.

DEMONETIZATION AROUND THE GLOBE

There are a few episodes all around the world where nations have demonetized their monetary forms and presented new money. taking up of another cash completely relied upon the need of the nation. A portion of the regions that regularly examined about demonetizations are:-

- **Europe** – At the point when the European Union was formed in 2002, every one of the nations of the European Union acknowledged euro as their cash and eliminated their separate monetary standards. In any case, so as to announce a smooth progress through demonetization, the old monetary standards stayed interchangeable into euros for a set timeframe.
- **Philippines** - In 2015, the nation demonetized its bank notes which had been obtainable for use for a long time (presented in 1985) with new ones which had just been available for use since 2010 to avoid falsifying. From January 2017 forward, the old bills will be demonetized, or will no longer have financial esteem.
- **Nigeria** – In 1984, during the legislature of Muhammadu Buhari, demonetization of Nigeria's old money was done and rather another cash was embraced. The nation up to this point was obligation ridden and expansion hit and thus, couldn't take the change well and crumbled.
- **North Korea** – So as to exile bootleg market, Kim – Jong II presented a change that knocked off two zeros from the presumptive worth of the old money. This move of 2010 remaining the individuals of Korea with no food.

RESEARCH METHODOLOGY

Objectives of the study

- To know about demonetization and its need
- To study the general impact of demonetization on the economy and impact on the key sectors in short and long run.

IMPORTANCE OF THE STUDY

- To study the need for Demonitization
- To know the impact of Demontisation in india

➤ To study the impact of Demonetization on key sectors.

DATA COLLECTION

The paper is descriptive paper based on secondary data collection from journals and newspapers (Key sectors-Agriculture and related sectors, Building materials, Metal and cement, Real estate and consumption related sectors like consumer durables, FMCG, etc).

NEED FOR DEMONETIZATION

Demonetization has been completed by various countries around the world. While the reality of supplanting an old cash with the new money remains same, the interesting part is to think about the explanations behind embracing demonetization. For example, India consented to demonetization to battle the threat of dark cash, Zimbabwe embraced the progression to battle the issue of value rises. Consequently, nations have diverse legitimization to start the progression of demonetization. India, being a money based society has 70% of its exchanges are in type of money. Additionally, 80% of the populace represent casual part, which add to around 45% to our GDP (Gross Domestic Product). The money available for use proportion for India is likewise the higher, when contrasted with different nations around the world.

Volume of currency notes			Value of currency notes		
Denomination	Value in crore pieces	% of all currency notes	Denomination	Value of Rupee in crore	% of currency value
2 and 5	1,162.6	12.88%	2 and 5	4,500	0.27%
10	3,201.5	35.47%	10	32,000	1.95%
20	492.4	5.45%	20	9,800	0.60%
50	389.0	4.31%	50	19,400	1.18%
100	1,577.8	17.48%	100	1,57,800	9.61%
500	1,570.7	17.40%	500	7,85,400	47.85%
1000	632.6	7.01%			
Total	9,026.6	100%	Total	16,41,500	100%

From above table, it is plainly evident that Rs 500 and Rs 1000 notes are 24% of the volume in development, yet represent 86% of significant worth available for use. Along these lines, the Indian government intended to take out Rs 14, 18,000 crores by demonetizing 2,203.3 crores money notes of Rs 500 and Rs 1000. The reality about India that out of its all out populace, just 2.5 crore individuals document personal assessment and that such a large number of with zero duty, emerging the need to widen the expense net. India's assessment to GDP proportion additionally stands most minimal on the planet for example around 10.6% which is identical to African nations. Subsequently, the choice to demonetize the old group was a decent answer for these issues. Notwithstanding, one of the most crucial explanation behind demonetization was to wipe out the bogus money in development. It has been assessed that around Rs 400 odd crore is in development, for the most part in Rs 500 notes. In this way, some of reasons because of which Indian government chose to demonetize Rs 500 and Rs 1000 notes were:-

- To fight the menace of black money and attack the black money holders.
- For death knelling the fake currency racket (as most of the counterfeit currency was in the form of Rs. 500 and Rs 1000 notes only).
- To put an end to terrorist funding, as huge sums of money in the shape of hard cash was used to fund Islamic terrorists and Naxalites.
- To promote clearness by promoting digital money and online transactions and increase the power of financial intelligence unit.
- For moving towards a cashless economy, by dropping the proportion of hard cash in the economy.

- To put an end to the hawala transactions carried out using Rs 500 and Rs 1000 notes.

GENERAL IMPACT

The effect of demonetization on India can be seen in both the ways for example profiting the economy everywhere and making agitation among individuals. Following influences could happen because of demonetization:-

▪ **Cash crunch leading to decreased demand**

The progression of demonetization has brought about huge abatement in liquidity in present moment, which is probably going to ease after some time with course of new cash notes. Likewise, there has been a sharp decrease in the accessibility of extra cash with the individuals, influenced their spending examples and utilization drifts in the economy in short run. The interest for these specific zones is probably going to be affected the most, inferable from the way that noteworthy measure of exchanges in these areas included money:

- Consumer goods
- Real Estate and Property
- Gold and Luxury goods
- Automobiles (only to a certain limit)

▪ **Significant increase in alternative payment methods**

With reduction in liquidity, the money exchanges have been affected and individuals have begun utilizing elective installment strategies, for example, e-wallets, online exchanges utilizing e banking, charge and Mastercards and so on. For example, since the declaration of demonetization, individuals because of money crunch began moving to cashless installments through Paytm. Inside 12 days of demonetization occurring, Paytm saw more than 7 million exchanges worth Rs 120 crore daily.

▪ **Benefits to government department**

Demonetization has expanded the income for power branch of the administration. Prior, urban areas used to battle to gather Rs 5 crore power bills, yet post this progression, Rs 15 crore power bills have begun being gathered. Every one of the individuals, regardless of whether poor, working class or high class are compelled to pay their dues.

▪ **No practice of donations to get admissions in schools**

With this money related careful strike, the act of gifts will reach an end. Poor and working class individuals had to give away their white cash as dark for tying down affirmation of their children to schools. This training is probably going to stop post this progression.

▪ **Effect on the prices**

Because of control of interest, the value level is required to be brought down. For example, for land and property, on the off chance that we think about clearance of properties as a component, the real piece of the exchange included managing in real money instead of checks or bank moves and along these lines, a decrease in the costs could be viewed as individuals don't have adequate cash to pay much.

The full scale factors would be to a great extent influenced because of these progressions and hence, some different effects of demonetization are:

▪ **Impact in short run**

Expanded interest in the economy will prompt increment in the interest for capital merchandise. Expanded interest will prompt expanded salary in the economy. The segments, working with abundance generation limit will have the option to satisfy the need, however the segments with which won't have the option to fulfill the extended need, will prompt expanded costs. Hence, in short run, swelling could be normal.

▪ **Impact on GDP and employment in long run**

This budgetary careful strike is probably going to influence the cash supply in the economy. This can be viewed in two different ways; the first being the money which was utilized as a mode of trade would be stifled, prompting pressure in salaries, work and utilization in the economy. While, the reproduction impact would be of the money that is in effect mostly supplanted in the framework. This would prompt extension in the potential credit creation.

▪ **Impact on balance of payment**

Imports for any nation are identified with the size of the economy. In the event that the progression of demonetization prompts expanded GDP, an ascent in imports can likewise be normal, yet the effect on fares can't be determined. Along these lines, the parity of installment could exacerbate, which would affect estimation of rupee in the universal market. The estimation of rupee is probably going to deteriorate.

IMPACT ON KEY SECTORS

With demonetization in real life, a money mash in the economy, practically every one of the organizations have seen a misfortune. The little and medium scale business has been hit hard as they were profoundly subject to money exchanges. Sellers like the sabjiwala, chaivala and other little merchants needed to confront a great deal of issue during the underlying period of demonetization. Despite the fact that, the circumstance has improved now, by countless merchants tolerating advanced wallets, however yet not all. A portion of the key parts affected post demonetization are:

▪ **Agriculture and related sectors**

Horticulture is a part which sees high money exchanges and in this way, the close to term sway on this division can be seen till liquidity is imbued in country regions. There could be delay in installments because of brief deficiency of assets in present moment. In any case, effortlessly in liquidity and cashless exchanges, the essentials would be driven by long haul drivers of ordinary storms and positive footing.

▪ **Auto and auto ancillaries**

Two wheelers: The level of money exchanges being high in this section, could prompt low buys. Be that as it may, request may get by and large development in utilization on rustic just as urban side.

Passenger vehicles: During the long stretch of November and December, a regular lull was seen. The equivalent could get overstated with desire for rate cuts in the economy. Be that as it may, the vast majority of the buys in this fragment are financed through credits; the low request would be an impermanent wonder and would recuperate.

Commercial Vehicles: This segment has been experiencing tension lately and slackness has been found in this part. Be that as it may, this lull may likewise be brief and request may get, driven by pre-purchasing in light of changes in emanation standards just as a pickup in the by and large financial action.

▪ **Consumption related sectors like consumer durables, FMCG etc.**

In the close to term, this area considered a to be request by individuals as the vast majority of the exchanges depended on money. In any case, as individuals will acknowledge the cashless stages, the interest will in general recuperate making the close to term influence impartial. In long haul, the interest may will in general move from disorderly to composed players.

▪ **Real Estate**

The reality about this division remains that the land bundles are normally paid in real money. With, the confinement on money exchanges, the land costs will in general fall. Urban areas where theoretical purchasing is high will unquestionably observe request under strain. The general interest will likewise decay. As long as possible, as costs will address, the market can see an extension in term of interest as reasonableness increments. Long haul development in the division could be seen by expanded straightforwardness, lower frequency of hypothesis and passage of real purchasers.

▪ **Building materials, metals, cements etc.**

In the close to term, a log jam might be seen because of high reliance on land. Additional time, as the interest would improve as land segment will see improvement. Sorted out players would see a development in piece of the overall industry on the back of move sought after.

CONCLUSION

The legislature has endeavored to handle three discomforts as of now the economy – a parallel economy, fake money available for use and fear financing. This progression will add to financial specialist intrigue of the economy throughout the following two – three years, with progress in India's situation on straightforwardness and debasement in the worldwide stage. While, individuals should battle a piece in the short run, the move is probably going to profit the nation in long run. Demonetization is generally trailed by remonetization. The administration of India has just presented the RS 2,000 and Rs 500 notes, yet liquidity couldn't be met and accordingly, the spotlight must be on advancing e-banking and online business. While, Modi's demonetization activity has turned out as an aid for India's e installment suppliers, a few areas of the economy, similar to land, gold and gems have been influenced yet all in all, we can say that this change would prompt a progressively comprehensive society later on.

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