

## **WHAT HAS CHANGED IN THE ECONOMY IN INDIA FIVE YEARS AFTER DEMONETIZATION**

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### **ABSTARCT**

Demonetization entails recovering the nation's lawful tender. In the past, demonetization has happened in a number of nations across the world, including Australia, Ghana, Nigeria, the Soviet Union, and Pakistan, and others. It has also occurred in India on sometimes. On November 8, 2016, the most recently currency devaluation takes place. the key monetization aims try to reduce fraud, illicit market transactions, and corruption. This research paper's goal is to examine the historical background of demonetization in India, in addition the economic effects of monetization in India, including how it will affect Indian currency value, the stock market, the nation's GDP, inflation, and other factors societal segments and industries effect on digital payments, effect on India's inflation, and effect on tax payer. The key finding is that demonetization has a mixed effect on the Indian economy, having good and negative effects on different sectors.

**Key words:** Demonetization, Indian Economy, Indian Currency.

### **I. INTRODUCTION**

The process of eliminating a currency's legal tender status is known as demonetization. Demonetization is required each time the country's money is altered. A new currency unit must be introduced to replace the previous one. Remonetisation, which restores a method of payment as legal tender, is the reverse of demonetization. On the eve of November 8, 2016, 86 percent of currency notes were declared to be unreliable tender, necessitating an urgent disruption in everyday life. Everyone was taken aback by this action since it was a significant and unexpected decision that our honourable Prime Minister Shri Narendra Modi announced in a speech at 8:15 p.m. without any previous notice. Demonetization as a notion is not brand-new. With the help of this action, "black money" stocks will be removed from our market and transformed into legitimate, bankable, and taxable assets that can contribute to our economy. Analysing the micro-economic impacts, it appeared to be relatively advantageous: first, the unclaimed income at Numerous Nagar Nigam expanded

second, it was also a political act because it was a targeted attack on finance for terrorism, and third, it proved successful in reducing the use of counterfeit money. However, on a macro-economic perspective, a sizable percentage of the population analyses this action as unjust given the issues they are currently facing. Fast-forwarding to 1923, In his book "Problems of Indian Rupee," Dr. B. R. Ambedkar recommended currency reforms every ten years to fight inflation and black money. India demonetized for the first time in 1946, following suit. However, the success rate was just 6.3% for high-value currency notes, which was not very high.

### ***History of Demonetization in India***

The official currency of the Republic of India is the Indian rupee (INR). Although there are 100 paisa (the singular form of paisa) in the rupee, only 50 paisa coins are considered legal tender as of 2011 India has authority over the currency's issue. The Reserve Bank of India's role in currency regulation is established by the Reserve Bank of India Act, 1934. The silver currency known as the rupia, which was introduced by Sultan Sher Shah Suri in the 16th century and perpetuated by the Mughal Empire, is the inspiration for the name of the rupee. official unveiling of a new logo and adopted in 2010. It was created by fusing the Latin capital letter "R" without its vertical bar with the Devanagari consonant (ra) (similar to the R rotunda). According to some, the parallel lines at the top (with the white space between them) are a reference to the three-color Indian flag\*6+ and display the equality symbol, which stands for the country's objective to lessen economic imbalance. On July 8, 2011, the first batch of coins bearing the new rupee symbol entered circulation.) (Similar to the R rotunda). According to some, the parallel lines at the top (with the white space between them) are a reference to the tricolour Indian flag\*6+ and also show an equality sign, which stands for the country's objective to lessen economic imbalance. On July 8, 2011, the first batch of coins bearing the new rupee logo entered circulation. The discontinuation of the 500- and 1000-rupee notes, which took effect at midnight on November 8, 2016, was announced by the Indian government as a significant step in reducing undeclared black money. The declared goal is to combat black money as well as corruption and counterfeit money, which are both used to fund terrorists. Since November 10th, 2016, a new series of redesigned Rs. 500 banknotes addition a new Rs. 2000 banknote have been put into syndication. In the upcoming months, it's also anticipated that the new, redesigned series would be issued for the banknote denominations of Rs. 1000, Rs. 100, and Rs. 50.

### ***Currency Ban***

1. In 1946 saw the withdrawal of the Rs. 1,000 and Rs. 10,000 notes from existence. The currency of such greater denominations was not available to the general public; therefore, the restriction truly had no effect. But in 1954, both notes were brought back, together with Rs 5,000 in currency. After four years, in 1938, Rs 10,000 notes were introduced. In 1934, Rs 500 and Rs 1000 notes were first introduced.
2. That happened in 1978 when Morarji Desai, India's prime minister at the time, issued a money prohibition that removed the Rs one thousand, Rs five thousand, and Rs ten thousand from circulation. The ban's primary intention was to diminish the country's manufacturing of illicit currency.
3. The demonetization of the Rs. 500 and Rs. 1000 banknotes, which took effect at midnight on November 8,

2016, was announced by the Indian government. The declared goal is to combat black money as well as corruption and counterfeit money, which are both used to fund terrorists. Since November 10th, 2016, a new series of redesigned Rs. 500 banknotes in addition a new denomination of Rs. 2000 banknote are in use.

### ***Historical Backgrounds of Demonetization in India***

- ❖ The Reserve Bank of India twice released the Rs 10,000 note, making it the highest denomination note ever made. The first time was in 1938 and the second time was in 1954. However, according to statistics from the RBI, these notes were demonetized in January 1946 and again in January 1978. Prior to January 1946, Rs 1,000 and Rs 10,000 banknotes were in use. The reintroduced in 1954 higher value banknotes of Rs 1,000, Rs 5,000, and Rs 10,000 In January 1978, the whole note was demonetized. The Rs 1,000 note reappeared in November 2000. The Rs. 500 note first went into circulation in October 1987.
- ❖ The action was subsequently explained as an effort to reduce the amount of circulate in currency as a result of inflation. But this is the first time the Rs. 2,000 banknotes have been released.
- ❖ Prime Minister Narendra Modi said that the 500- and 1,000-rupee notes now in circulation will cease to be legal tender at midnight on November 8 and that a new 500- and 2,000-rupee note would be released on November 10.
- ❖ Between 1967 and 1992, Rs 10 banknotes with the Ashoka Pillar watermark series were released, followed by Rs 20 in 1972 and 1975, Rs 50 in 1975 and 1981, and Rs 100 between 1967 and 1979.
- ❖ The phrase Satyameva Jayate, which means "truth alone shall prevail," was initially put beneath the national insignia in the year 1980.
- ❖ A new Rs. 500 notes featuring a In October 1987, a photograph of Mahatma Gandhi with the Ashoka Pillar watermark was made public. The 1996 Mahatma Gandhi (MG) series issued banknotes in the following denominations: Rs. 5, introduced in November 2001; Rs. 10, released in June 1996; Rs. 20, introduced in August 2001; Rs. 50, Rs. 100, released in March 1997, Rs. 500, and Rs. 1,000. (November 2000).
- ❖ Compared to the 2005 Mahatma Gandhi Series bank notes, which were released in the denominations of Rs. 10, Rs. 20, Rs. 50, Rs. 100, Rs. 500, and Rs. 1,000, added certain new or enhanced security features over the 1996 MG series.
- ❖ Following the release of the Rs. 50 and Rs. 100 banknotes in August 2005, the Rs. 500 and Rs. 1,000 banknotes in October 2005, and the Rs. 10 and Rs. 20 banknotes in April 2006 and August 2006, respectively.

## **II. REVIW OF LITERATURE**

**Dr. Ruchi** “2016 the present economic downturn is a fantastic chance to promote peace. Wars could be fought over territory, resources, or even power, but they still cost a lot of money. Americans are starting to see the accuracy of the massive theft alert for the Educate Unity bailouts. According to a JP Morgan Chase official, the bailout money is not intended to assist homeowners but rather to consolidate control in the event that a downturn does materialize. The banks on the following list are acquiring smaller banks with government money. More and more people are coming to understand what the Federal Reserve is and who it actually

serves. The chance we now have has the potential to bring Everybody who values for our country will gain from all Americans working together. Financial crisis, demonetization, and the European Fiscal Union The process of withdrawing a currency's legal tender status is known as demonetization. Demonetization is important each time the national currency is altered. A new currency unit must be introduced to replace the previous one.

**Dr. Partap Singh, Virender Singh,** “At 12.1% of GDP, the amount of money in circulation in India is among the greatest. More than investments in shares, or around \$ 220 billion, cash on hand is anticipated to be at 3.2% of household assets. 87% of this currency, or Approximately Rs. fourteen lakh crore (\$190 billion) is in the form of Rs. Five hundred and Rs.one thousand notes. The majority of the household's cash reserves are produced through shady or unlawful economic ventures that are not disclosed to tax authorities. When higher denomination notes are abolished, new ones are either added to the system or the money just evaporates. Since some hoarders don't want to be linked with their cash hoard, the economy won't benefit if the money evaporates Alternatively, if the money enters the economy, it may have a significant effect. However, evidence from several nations demonstrates that the decision was one in a long line that fell short of reviving an inflation- and debt-ridden economy.

**Dr. Ambalika Sinha, Divya Rai (2016)** This essay sought to examine the broad effects of demonetization on rural residents. Without proper and efficient planning, the cash flow shortage brought on by demonetization has temporarily halted the Indian economy since the informal sector, which accounts for 40% of GDP, is no longer sustainable.

**Geeta Rani** The government uses demonetization to get rid of the money. In really bad circumstances, it is employed. This essay discusses the long-term implications of demonetization on merchants. This essay sheds light on the difficulties experienced by store owners, the repercussions on their businesses, and the effects on sales of the most well-known brands. The study demonstrates that while the consequences of demonetization on the market were initially severe, they also encouraged customers and retailers to employ cashless methods like debit card, Paytm use, and online banking to make purchases. By implementing cashless transactions, the economy will be solid in the future and the Indian economy would gain from quick and easy transactions. The impact of demonetization on the Indian economy will be favourable going forward.

**Kanchan 2016** The sudden abolition of the 500- and 1000-rupee notes in India has thrown the whole nation into panic. The phrase "demonetization" has recently become popular, whether the nation is pleased with the idea or angry with the action. We explain the definition of the term, exactly when and how will Indian cash be demonetized took place, and whether it was a good or terrible idea.

### **III. OBJECTIVE OF STUDY**

The primary goals of this research are examining past experiences with the effects of demonetization in various nations

Analyze how the demonetization of currency has affected the Indian economy so far

Examine both the benefits and drawbacks of demonetization on the Indian economy and other economic sectors.

#### IV. RESEARCH DESIGN

Three types of research designs exist: exploratory, descriptive, and causal. To determine the impact of demonetization on the Indian economy, I employed an exploratory research approach in my study.

##### *Demonetization's Impact on The India Currency:*

On the November 8, 2016, post demonetization of Indian currency, the rupee has lost value relative to 96 other currencies or economies. The rupee has strengthened relative to 60 other currencies out of 161 and is currently trading at parity with 5 other currencies. If we look at data for the six months leading up to demonetization, the rupee has strengthened against 125 different currencies from May 8 to November 8 of 2016. However, after 26 days of the restriction on the Rs. 500 and Rs. 1000 notes, the rupee has surpassed just 47 other currencies in strength. Rupee value decreased against US Dollar (\$) by 2.66%, moving from 66.40 to 68.17 INR per US Dollar. The Indian rupee has lost ground against various well-known currencies, including the British pound, the Canadian dollar, and the Hong Kong dollar. However, it also gained strength against the Singapore Dollar, Australian Dollar, Swiss Franc, and Japanese Yen, and Euro. The Indian rupee (INR) weakened in comparison to other south Asian currencies. Bangladesh Taka, the rupees of Nepal, Sri Lanka, and Pakistan.

Period	Stronger	Weaker	Same
50 days after the demonetization (08-11-16 to 28-12-16)	60	96	5
Six months prior to demonetization (08-05-16 to 08-11-16)	126	33	4
The Modi Administration (26-05-14 and 28-12-16)	95	66	2
Before to demonetization (26-05-14 and 08-11-16)	94	67	2

##### *Demonetization's Impact on The Indian Economy:*

##### **Impact On Shadow Economy:**

The exclusion of these 500- and 1000-rupee notes and regeneration of them with new five hundred- and two-thousand-rupee notes is anticipated to decrease funding for illegal activities like smuggling, terrorism, espionage, and other forms of anti-social behaviors. Black money will be removed from the economy as it will be blocked because its owners won't be able to deposit it in the bank.

### ***Impact On Monetary Supply:***

Money supply is expected to decrease in the near term until the new 500- and 2000-Rupee notes are widely used in the market due to the disposal of the old 500- and 1000-Rupee notes. As long as black money (which is not fraudulent) does not enter the system again, reserve money and hence the money supply will continue to shrink. When new notes are placed on the market and the amount of money in circulation rises, even if gradually discrepancy is fixed.

### ***Change In Demand***

It is anticipated that the total demand would be impacted somewhat. The following demand will be significantly impacted:

#### ***Consumer Goods***

Properties and property investment Consumables Gold and expensive goods Vehicles (but only to a limited extent) (only to a certain limit) Due to the substantial quantity of cash transactions involved in all the industries, it is anticipated that consumer demand would moderate in some of these areas.

### ***Impact On Prices***

Due to a moderated demand, prices are anticipated to decline. This price decline caused by demand might be explained as follows:

Due to a moderated demand and the ability to make certain purchases using cards and checks, consumer goods prices are only predicted to slightly decline.

Estate investment and asset: Prices in this sector are often expected to drop, particularly for sales of properties where the entirety of the transaction is made in cash rather than via bank transfers or checks. However, when developers equalize their pricing (perhaps by raising the cost of a check payment), prices in this industry may eventually level off.

### ***Impact On Different Economic Entities***

Until the new notes are widely circulated and cash transactions begin to decline, some segments of society may see temporary interruptions in the ease of conducting their business.

These are the sections:

- Agricultural and associated industries.
- Small businesses, SME, the services sector, political parties, and experts such as plumbers, carpenters, and utility service providers.
- Economic effects of the demonetization of the five hundred- and one-thousand-rupee notes, CARE Rating Report, November 9, 2016

### ***Impact On Electronic Payments:***

A little more than 1.2 crore additional Indians began utilizing digital wallets in only one week as a result of this. When compared to the week before the announcement, the reach of mobile payments expanded by 6%, reaching its highest-ever peak of 70%. Also, up 15% was usage frequency.

### ***Impact On Farmers.***

The implementation of demonetization during the Rabi sowing season would have a significant negative impact on farmers' capacity to purchase seeds and plant, which will have an impact on food output. The statistics on the Rabi sowing season is presented in the attached table, and it shows that this season, the area has actually grown by around 9%. Had there been any tension in the rural commercial transactions, the cropping period would not have seen a rise.

### ***Impact On Food Sector:***

The demonetization week had the largest growth in the food industry, up 19% from the previous year. The food basket's packaged groceries and culinary supplies experienced a significant increase. The rise was further aided by the consumption of tea, packaged Atta and rice, infant food, milk products, and unrefined oil. Impulse categories like biscuits, chocolates, salty snacks, and candy all saw growth, but considerably more slowly. The growth of soft drinks has drastically slowed, although the coming of Winter may also come to blame. Food volumes and growth trends suggested a move to bulk packing. Retailer private labels or continuous promotions throughout the demonetization week may play a major factor in this. Personal care sales helped non-food sales increase as well (17% in the week following demonetization vs. a 4.8% gain year to date prior to demonetization). Despite demonetization occurring immediately after the monthly shopping season every non-food category, including basics like toothpaste, shampoo, and detergent powders and cakes, had a significant double-digit growth. Food categories experienced a varied response from retailers, with some seeing favorable tailwinds and others experiencing a decline in demand. While packaged groceries and cooking oil saw an excessive demand from merchants on the basis of the assumption that customers would choose to stock up on necessities in the aftermath of the cash constraint, impulse food experienced the biggest decrease in demand.

### ***Impact On Gross Domestic Product:***

The country's GDP will be negatively impacted by demonetization in a "very considerable way." It has been quite critical of the plan to demonetize and has estimated that it will cause a 2% decline in the country's GDP. Demonetization will not have an immediate negative impact on growth, according to Arun Jaitley, the finance

minister, was replying to a query at a media briefing on Wednesday. Instead, he claimed that it will, over time, have a favorable impact on GDP. because "more transactions that were taking place will enter the actual economy from outside the (formal) economy.

## **V. CONCLUSION**

Up to 75% of the value of the demonetized notes may have been adequately replaced by the new five hundred and one thousand notes by the RBI in the 2 months it may have had. The high level of support for the changeover to e-wallets demonstrates the population's remarkable capacity for adaptation in India and how quickly that transition was implemented. Even in the first week following the demonetization of currency, some economic segments, like the impulse buy segment (biscuits, soft drinks, etc.), shown growth. The rise in sowing area indicates that farmers and Rabi sowing appear unaffected. Due to demonetization, the Indian economy is currently developing a "V" shape. After demonetization, digital payments are rising. Everybody tries to use electronic payments. There is less black money in the Indian economy. In India, corruption has declined. Although bank deposits may increase in the short term, their impact will diminish with time. India's gross domestic product would decrease as a result of demonetization.

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