



## Demonetization and its Effects on India

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### ORIGINAL ARTICLE



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Received on : 27/06/2024  
Revised on : 17/08/2024  
Accepted on : 28/08/2024  
Overall Similarity : 07% on 20/08/2024



Plagiarism Checker X - Report  
Originality Assessment

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Date: Aug 20, 2024

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### ABSTRACT

On 8 November 2016 midnight, the Government of India announced the demonetisation of all 500 and 1,000 bank notes 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. This scheme has a great impact on the businesses, common people, and financial institutions along with multi-diverse industrial background of India. Even though those who supported demonetisation may have had the best of intentions, millions of Indians have suffered needlessly as a result of it. Given that 86% of all currency in circulation in India, particularly in the country's vast rural areas, is made up of Rs. 500 and Rs. 1000 notes, imagine the suffering people would go through if 86% of their blood were removed from their bodies. The lack of banking facilities in the countryside caught the impoverished completely off guard. Critical social theory is not sufficiently taught to the tech class to help them comprehend the practical implications.

### KEY WORDS

Demonetization, Effectson, Bank, Country.

### INTRODUCTION

Only half of Indian adults have bank accounts, so after it was announced that the 500 and 1,000 rupee notes were no longer legal tender, consumers had 50 days to deposit them in bank accounts or exchange them for new notes at banks and post offices. 86 percent of the currency in circulation was taken out by the Indian Government, which destroyed its economic foundation in an attempt to fight corruption, even though 70 to 80 percent of transactions are cash-

based. There was an instant panic to get rid of the expired bank notes after the announcement. Although there was still time for consumers to deposit the notes in bank accounts before the end of the year, doing so in significant quantities could result in steep fees and fines. They therefore made a beeline for ATMs, banks, jewellery stores, foreign exchange counters, petrol pumps and creditors in order to pay back loans. The ensuing chaos at these locations resulted in multiple fatalities. Demonetised notes, or expired notes, were increasingly being donated to temples. Individuals began doing many transactions at various bank branches. They also began sending groups of followers, employees, and paid individuals to exchange significant sums of illegal currency at banks. To get rid of undeclared cash, several people were reserving tickets, especially in classes 1A and 2A, for the largest distances. This was discovered by the Indian Railways authorities.

Large sums of unpaid taxes and advance payments were made by individuals using the demonetised 500 and 1,000 notes. The local civic entities' revenue collections increased as a result.

### **Demonetization's Impact on the Indian Economic**

India's economy, which was once thriving, has suddenly stopped growing. Sales, trader earnings, output, and employment are all declining. Due to a shortage of funding, small producers are already closing. The vast majority of daily wage workers in India are unable to locate employers who can afford to pay them. For financial reasons, local industries have halted operations. Tight finances will force businesses to lower labour costs, which will lower the working class's income. The informal financial sector, which handles 40% of all lending in India and is mostly concentrated in rural regions, has virtually collapsed.

Demonetisation will cause a disruption in economic activity by acting as a shock to liquidity. People experiencing liquidity shock are unable to obtain a sufficient quantity of popular denominations, particularly Rs 500. It produces an environment in which currency scarcity impedes investment, consumption, output, employment, etc. The length of the liquidity shocks obviously affects how strong the demonetisation consequences are. The liquidity constraint is a transient phenomenon. The length of the liquidity constraint would increase with the amount of time needed to replenish the supply of Rs 500 notes. When there is a scarcity of liquidity, consumption suffers.

### **Demonetization's Impact on the Global Economy**

The global economy would undoubtedly be impacted by demonetisation. However, only the nations that engage in direct commerce with India will be affected. The first effect of demonetisation in India was a reduction in the purchasing power of the majority of the population. Consequently, there was a decline in national trade as a whole. Its Major Impact on:

- 1. Household and Domestic Sector:** The goal of this demonetisation is to reduce the amount of high-value notes that are being used in the underground economy. Since nearly everyone now possesses a Rs. 1000 or Rs. 500 note, it will now be more challenging for the average person to do business or take care of their home.
- 2. Diminish Public Liability:** Because soft money is safer than hard money, handling cash will be less risky and expensive. Additionally, it will lessen Governmental liability. For individuals who prefer not to reveal their income, the old money will lose all of its value because each note represents a liability to the Government. As a result, the Government will no longer be liable in that amount. It is anticipated that the Government will get about Rs 5 lakh crore in the shape of waived taxes, penalties, and RBI liabilities. It will reduce tax avoidance. Whatever money will be deposited or exchanged, authorities will keep a track of it and they will be extra cautious in this period.
- 3. Agriculture and Fisheries Sectors:** Typically, farmers transact in cash. The impoverished swap their currency for Rs. 300 or Rs. 400 through middlemen. Farmers face challenges in selling crops and perishable goods, as well as in purchasing seeds and fertiliser. The demonetisation resulted in a shortage of cash to purchase food items. Crop prices crashed as a result of the resulting decrease in demand.

Farmers were unable to recover even the costs of transportation from their fields to the market from the low prices offered.

4. **Business:** Cash on delivery (COD) orders declined by up to 30% for business e-commerce enterprises. Numerous online retailers celebrated the demonetisation ruling as a catalyst for a rise in electronic payments. They think it would result in a drop in COD returns, which should lower their expenses. Card swipe or point of sale (POS) machines are in higher demand. The goal of the goods and services tax (GST) is to create a single central tax to replace all state and federal levies.
5. **Effects on the IT Sector:** This action can help handle otherwise unmanageable issues including unlawful money lending, money laundering, and grey market commodities. The IT sectors want to use banking systems only for sales and purchases. It won't stop the grey channel business, but it will undoubtedly hurt the goods that the channel promotes. This action will support brand expansion while reducing cash sales of Chinese imports and counterfeit goods on the grey market.

## CONCLUSION

One well-known monetary policy tactic to combat black money is demonetisation. Demonetisation is a fantastic idea, however it should be remembered that the majority of black money is held overseas or in the form of real estate, structures, or gold. Just 4% of the entire amount of black money that is not subject to taxes is held in cash.

Not all cash is black money, nor is all black money in cash. Large-scale black money holders appear to have discovered inventive ways to conceal their wealth, as opposed to disposing of it to evade tax authorities, as was first anticipated by the Government. Small farmers, vendors, retailers, daily wage workers, and dealers are all suffering as a result of inadequate preparation, intelligence, and foresight, such as the failure to recalibrate ATMs. Before acting, there was a requirement to accumulate enough 100 Rupee notes and other lower denomination notes on the market. People are having issues as a result of the withdrawal restriction not being maintained at an increased level. Additionally, it is reported that attempts are being made to replace currency rather than demonetise, which was needless. This is a catastrophic blow to India's economy's reputation abroad. The economy is currently experiencing a slowdown. The fact is, there were serious flaws in its design. There was no cost-benefit analysis, no "policy skeleton," and no proof that other policy possibilities were taken into account. Based on the deluge of policy changes that have occurred since the announcement, it appears that no impact research was completed. making away from the state to firms and consumers; simplify, rationalize and reduce taxes; cut regulations and curtail officials' discretionary powers; eliminate loopholes; and widen the tax net.

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