

DEMONETISATION: IMPACT ON THE ECONOMY

Ms.Reetika Madaan¹

Mr. Deepinder Singh Aulakh²

ABSTRACT

The contention placed for demonetisation is that the money that would be quenched would be "black money" and thus, ought to be legitimately quenched to set right the unreasonable motivating force structure in the economy. While the truths are not accessible to anyone, it would be irresponsible to contend this is the only possibility. In this way, it is basic to assess the short run and medium-term impacts that shock is expected to have on the economy.

Demonetization can be said as a Surgical Strike" on Black Money, war and Terrorism, Fake Currency notes, Real Estate, and so forth then again on the off chance that we discuss the Indian business on a more extensive way it can be classifications in three sections Manufacturing segment, Service area and Agriculture segment.

Further, the effect of such a move would fluctuate depending on the degreeto which the government chooses to remonetise. This paper elucidates the impact of such a move on the availability of credit, spending, level of activity and government finances.

Keywords: demonetization, cashless transactions, credit, tax evasion

1. Ms.Reetika Madaan, Dept of Business Management, Bajaj college, Ludhiana
2. Mr. Deepinder Singh Aulakh, Assistant professor , Dept of Civil engineering, CGC jhanjeri

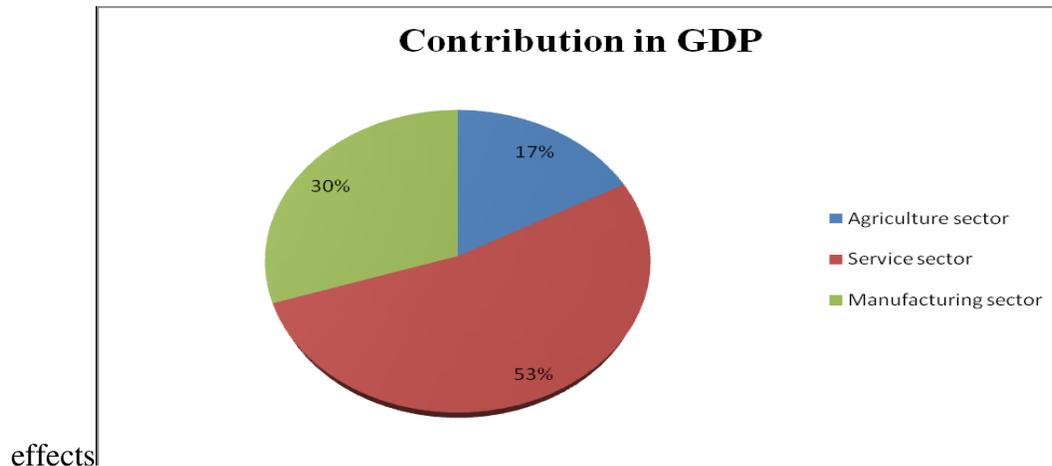
INTRODUCTION

With impact from eighth Nov. 2016 Tuesday Midnight PM Shri Narendra Modi Ji excluded the Currency notes of 500 and 1000. It is a firm choice of forbidding general 500 and 1000 rupee notes from circulation which is an aftereffect of discovering 1.25 lakh crore dark cash. Inside 3 days of that striking choice: - 35000 Crore Rs.was Deposited in banks and surmised 1500 Crore Rs Black Money was destroyed.

As indicated by the RBI's (Reserve Bank of India) Annual Report for April 2015 to March 2016, the estimation of the currency notes toward the finish of March 2016 was 16.42 trillion Indian rupees. The 500 rupee and 1,000 rupee currency.

In one stroke, the government expelled 86.4% of the currency in circulation by esteem. As far as volume, the currency notes of these two denominations framed 24.4% of an aggregate 90.27 billion pieces.

Presently we discuss the effect of Demonetization on Indian Economy Sector. To start with economy can be bifurcated in three wide fragments Agriculture Sector, Manufacturing Sector and Service sector all these three sectors contributed in Indian GDP. Agriculture Sector Contribute 17% in GDP Manufacturing Sector Contribute 30% in GDP Service Sector Contribute 53% in GDP After Demonetization all the three sectors confronts negative



II. OBJECTIVES OF THE STUDY

- A. To analyze the impact of Demonetization on GDP.
- B. To analyze the impact of Demonetization on different sectors of economy.
- C. To analyze the future impact of Demonetization on Indian Economy.

III. CONCEPTUAL FRAMEWORK

Reasons behind Demonetization: As per my study Following is the main reasons behind Demonetization.

Black Money:- A current review had pegged India's black market economy at over Rs 30 lakh crore or around 20 % of aggregate GDP. This is significantly greater than the GDP of nations like Thailand and Argentina. So now after this Decision black money holders are left with only two alternatives – either course this money through banks, announcing it to be their salary or consume the reserved document.

Fake Currency and Terrorism: - —Terrorism is a frightening thing. Be that as it may, have you at any point pondered how these psychological militants get their money? Enemies from over the border have run their operations utilizing fake currency notes. This has been continuing for years.¶

Economy:- The Major effect of this decision is on the economy since it gives exceedingly positive effect on the monetary Stability in not so distant future. The coming six to seven months are required to witness a significant level of deflation. Sectors like real estate, construction material, Gold, unorganized trade and services will see noteworthy torment in the close time.

Election: - We all know how much black money is utilized by political gatherings. It will be an extremely intense assignment to utilize trucks of money in any event for the forthcoming five state elections. Presently in forthcoming UP election neither of the parties can buy the vote of destitute individuals and Some radical change in the elections going to be seen by everybody.

Unorganized Trading:- 1.) Prices climb in Real estate sectors is for the most part on account of the association of black money, yet in the wake of taking this decision the costs of property will doubtlessly descend to their real esteem. 2.) Unorganized managing in share market will likewise be killed after this decision and this will increase positive outcome in the monetary state of the nation. 3.) The issue of inflation will get fathomed with this progression as the government will get more money in its pocket in type of assessments and undisclosed pay. 4.) Banking framework will likewise get reinforced as banks will be overflowed with gigantic measure of money. This will likewise bring about more financial improvement in the country as the money will be channelized appropriately through banks. **Less Cash Economy:** - It is unrealistic to make India Cash-Less economy, yet for the improvement and making straightforwardness in the economy we can state utilization of less Cash is conceivable. So to make individuals acquainted with E-Payment and utilization of plastic currency.

IV. RESEARCH METHODOLOGY

Type of Data The present study is quantitative in nature and secondary data will be used for the purpose of analysis. **Source of Data** The present study is based on secondary data. The sources

of data include the facts released by Reserve Bank of India (RBI), Exchange, Central statistics office India and Different banks websites.

V. FACT AND FINDINGS

An.) Impact of Demonetization on Agriculture Sector:- Agricultural development in India contracted 0.2% in 2014-15 and became close to 1.2% in 2015-16, generally in view of consecutive dry seasons. It was required to develop at 4% in this year according to CRISIL Report, yet because of Demonetization this conjecture is demonstrated wrong since Farmers are coming up short on Cash to purchase Seeds, Fertilizer, Equipments, and Wages installment to laborers and Commission to Agents and so forth. Due to Cash lack every day supply transport framework has additionally endured which was result in 25 to 50 % lessening in deals. Taking after is the fundamental reasons;

I. Farmers are not instructed and mindful about how to take a shot at E-Payment System, Recent review by RBI Says 78% of the populace don't utilize web in which just about 80 to 85 % are Farmers.

II. In a large portion of the Villages Proper Banking framework is not Developed yet and Villagers are have to go to the urban communities for the same in view of that Farmer's more often than not is occupied with trading the old notes in Banks.

B.) Impact of Demonetization on Business sector:- according to the review IPP says Growth in Business sector 0.7% in October 2016 yet after eighth Nov.2016 Demonetization demonstrates an alternate picture due to this decision work turnover is additionally expanded as absence of Production on account of law demand of items individuals were buy just on the off chance that it fundamentally required, for this I have contemplated on taking after business sector

I. Material industry :-

The greater part of the Brands and Retailers Report 40 to 60 % drop in deals after Demonetization in initial couple of weeks yet from December onwards this drop is marginally diminish, yet at the same time we can state the effect of this decision has influence the business in 2017 additionally for no less than 3 to 4 months.

II. Real Estate :-

Demonetization crushed the real estate market and it will bring about half drop down and it will stay for further 5 to 6 months. While the fleeting effect is negative, Experts trusting that rate cuts in the coming months would help home deals.

III. FMCG Products :-

Shopper uses likewise influenced by that decision now just those items are bought which was important for every day utilization and for the most part the little traders like '_kirana store', '_small bodies', '_thela wala' and so on they all have done their day by day exchanges just in real money and on the grounds that buyer has less trade out his stashes the day by day offers of these traders drop around 20 to 30 %. It is likewise a fleeting effect in future things get ordinary. C.) Impact of Demonetization on Service Sector:- Service sector is hit extremely heard by Demonetization decision in November 2016 most noticeably bad Slump in about three year is noted. The Nikkei India Services Purchasing Managers' Index (PMI), which tracks services sector organizations on a month to month premise, remained at 46.7 in November, down from 54.5 in October. The Index slipped into contraction territory interestingly since June 2015 and indicated the most honed decrease in yield for very nearly three years. On other hand in the event that we discuss Banking Sector this is the main sector which was profited by that decision in numerous perspectives, this move will pull a vast lump of first time clients to banks, who should utilize the framework in any event once to trade their old notes for new ones. As indicated by a review directed by Moody's, individuals tend to keep utilizing banking services once they have crossed the 'first-time client' check. This improvement will build bank stores by 1 to 2 percent contrasted with what they were before the demonetization conspire.

VI. CONCLUSION

The present study shows the impact of Demonetization on Indian economy's different sectors. GDP of Country slightly decreases as compare with the previous year but we cannot say it will be same in future also. —This intervention is a one-time draining of this current stock of black money but unless the root causes of corruption are removed, corruption will continue. It is sort of like a dialysis, more of a short term cleaning up than a solution of the problem. It needs to be repeated periodically. After study of Demonetization following questions raised for the year 2017.

1) What was the impact of Demonetization in 2017 on Indian business sector?

- 2) What could be the next step of Government after Demonetization?
- 3) What will be the impact of Demonetization on GDP in short term and long term?
- 4) To what extent the step of Demonetization has curb issues like black money, Corruption, fake Currency and Terrorism?
- 5) How this step will affect the employment generation opportunities?

OPTIONAL

VII. EXPERT REVIEW Finance Minister Arun Jaitley: —The goal of this is to clean transactions, [to] clean money.¶ **Girish Vanvari, partner and head (tax), KPMG in India:** —This announcement appears to be the most significant change made by the Modi government to date.¶ **Crisil, a global S&P company:** —Its impact could be even bigger than GST (the Goods and Services Tax which is still running the gauntlet of politicians).¶ **Rajesh Chakrabarti, professor and executive vice dean of the Jindal Global Business School at Jindal Global University:** Pointing out that only a small percentage (by some estimates as low as less than 6%) of the unaccounted wealth is held in cash. **Pronab Sen, country director of the India Central Programme of the International Growth Centre, a think tank:** Demonetization has perhaps —penalized¶ the entire informal sector and damaged it permanently¶, especially the informal financial sector, which could account for a fourth of bank lending, or 26% of GDP.

Sumeet Soni, Commercial Director, Benetton, says, —The impact is at both ends — production and consumers. In production, as large part of the industry is still unorganized and lot of activities is subcontracted which are getting impacted due to cash crunch. It has also compelled consumers to pull the plug on spending. The way of doing business, largely cash dependent, has impacted the inflow of products. **Shitanshu Jhunjunwala,** Director, Turtle, Said:- —The Indian garment business relies on a lot of cash transactions and the demonetization has brought in a conservative spending sentiment, for which there might be a slight dip in the sales over the next one or two quarters. However, the impact should normalize in the long term and this move would be beneficial for the organized retail sector. The impact is felt more by the small traders and the unorganized retailing segment who rely more on cash trading and sales. Some sectors like jewellery and the luxury segment have been impacted more than mid-premium and mass segments and will no doubt take a longer period to revive. However, the use of plastic money and transactions through online payments will continue to increase consumer spend in the retail market.¶

REFERENCES

- [1] Gulati, Singh, Gurbir, (Jan. 2017) Impact of Demonetization on Textile industry, www.indiaretailing.com
- [2] Das, Samantak, (Jan. 2017), impact of Demonetization on Real estate, Chief Economist and national director, Knight Frank, www.livemint.com
- [3] Malik, Anghshu, (Jan. 2017), Impact of Demonetization on FMCG Products, Chief Operating Officer at Adani Wilmar Ltd., www.livemint.com
- [4] Kapoor, Mahimam, (2016), Impact of Demonetization on Banking Sector, www.bloombergquint.com
- [5] Dec. 2016, PTI, New Delhi, www.dnaindia.com
- [6] Key Economic Indicators, Office of the Economic Advisor, www.indiaspend.com
- [7] Crisil, 2016, A Global S&P Company, www.indiaspend.com [8] Sinha, Sanjeev, (Dec. 2016), Demonetization impact, New Delhi.
- [9] Ashworth, David (Nov. 2016), Reasons behind Demonetization, www.marketrealist.com
- [10] Heng, How, Koon, senior FX investment strategist at Credit Suisse, www.bloomberg.com