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**Demonetization: the positive impact on Indian Economy**

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**ABSTRACT:**

Indian government has occupied a bold conclusion on note ban on 08/11/2016. Central government was a sensible, well-thought out and well-implemented step, and whether it would actually destroy all the current black money. Here I have used the opinions of great skilled on economics, monetary economist and intellectual candidates. The government's demonetization change is going to have "a positive impact on the economy, including GDP". The steps that the government had taken were the right steps which were being applied in the right manner. As far as the Indian economy is anxious, including on India's GDP, it is going to be a positive impact, Jaitley said there will be a positive impact "because a lot of money that operates in the shadowy economy will now become part of the banking structure" and banks "will have a lot more money to support the economy". This study will help us to know about the positive impact of note ban choice taken by Indian government. This study is purely based on secondary data, which is collected from newspapers, magazines, websites from internet, some useful books related to topic etc. The present paper highlights the probable consequences of this decision on various economic variables and entities.

**Keywords: - Indian government, note ban, economist, expert, opinion.**

**1. Introduction**

Demonetization is the act of shifting the present currency in another form. The old units should be emeritus and exchanged by new currency. In other words demonetization means either presenting new notes or coins of the same currency or fully substituting the old currency with new currency. There is a one important thing happen on economics, which is demonetization, in which systems of payment is renovated as legal tender. There are so many details, why governments demonetized their nation's currency. Some details are like fighting inflation, resist exploitation, and depress a cash system in the country. In November 2016, The Indian government has taken a bold step to demonetize the 500 and 1000 Rs (fully ban). Currency notes, these two main denominated notes accounted 80% of the currency supply. The government's main objectives of note ban is, to exterminate fake currency, battle tax evasion, destroy the black money, and terrorist funding activities, and to inspire the country towards the cashless economy. This decision taken by government is for happiness of the nation, but so many questions comes in mind that, would note ban choice actually eliminate the black money, if does then at what degree black money will come out.

Demonetization may have had "considerable negative effect" in the first few days but the situation now has enhanced and it has a positive impact on the economy. "As far as the consequence on the economy is anxious, it will have a substantial negative effect in the first few days after the policy was publicized in November. But since then the condition has better rather meaningfully and we are seeing a strong pickup in demand of many of our products now,"

There is a fair quantity of cash inserted into the economy and more is being inserted regularly. "So I imagine a very rapid tick up on the economic obverse also." When asked whether demonetization has hit rural sales, which expectant a good season was riding on good monsoon this year, Of course, it would diminish the sales but it's transmittable up very soon. Whatever the stocks were compact at retailer's end will be replaced very soon. December was a good month."Conflicting with the enemies of demonetization".

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## **2. Objectives of paper:**

- To analyze the current the immediate impact of demonetization on Indian economy;
- To work out the likely significances of the demonetization.
- To know about actual current outcomes of the note barred decision.
- To know the possible of the note ban decision.
- To estimate the significances for future of the note ban decision.
- To know the impact of note ban decision on the Indian economy.

## **3. Scope of the study:**

- This study will helpful for the citizens of India, Indian government, businessman and the Indian customers. Through this study government will be capable to know about the forthcoming conditions of the economy.
- This study will help to the government for policy making to the improvement of the economy.
- This study will also helpful for the Indian citizen because they would be able to know the present and future disorder of the economy and they can take rational decision on their income and spending. Any businessman can also take the wise choice so that he will be able to harvest more income and can earn the profit in the actual market scenario.
- Finally everyone would be able to know the impact of note banned decision on Indian economy as well as Indian markets.

**4. Research Methodology** The paper is based on secondary data. The data has been collected from internet Data Collection Secondary data has used for the study. Secondary data is collected from library, text books, and journals, articles from newspapers and from relevant websites available on internet.

## **5. Literature review**

### **India's history with demonetization: From 1946 to 2016**

The whole country was taken aback when Prime Minister Narendra Modi on November 8 declared that the currencies in the denominations of Rs 500 and Rs 1,000 will be unacceptable post-midnight. However, the lower denomination –Rs 10, Rs 20, Rs 50, Rs 100 and coins –will be lawful. He additionally proclaimed that new notes of Rs 500 and Rs 2,000 would present shortly. Thus, giving millions of Indians a fright attack. Demonetization has been applied twice -1946 and 1978 – in the past.

#### **(a)The first currency ban:**

In 1946, the currency note of Rs 1,000 and Rs 10,000 were detached from movement. The ban really did not have much influence, as the money of such higher denomination was not available to the common people. However, both the notes were reinstated in 1954 with an extra introduction of Rs 5,000 currency. Rs 500 and Rs 1000 notes were announce in 1934 and after four years in 1938, Rs 10,000 notes were announce.

#### **(b)The second:**

That came in 1978; the then Prime Minister of India Morarji Desai proclaimed the currency ban taking Rs 1000, Rs 5000 and Rs 10,000 out of movement. The sole aim of the ban was to curb black money group in the country.

Similarities in 1978 and 2016 ban:

- The note ban by Morarji Desai also expected to drive away black money out of movement in the economy. Hence, The High Denomination Bank Notes (Demonetization) Act was applied.

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•NarendraModi announced the currency ban is an address that was disseminated across all news stations. Similarly, Desai proclaimed the ban over the radio after which the banks were closed the following day.

•Both the affairs were kept confidential.

Differences in the ban:

•Unlike Modi, Desai didn't have the backing of the RBI Governor. The Governor I.G. Patel believed that the ban was applied simply to restrain the funds of the disagreement party. Patel also believed that people never store black money in the form of currency for too long.

•It didn't have much result on the people and pretentious only the pleasure few. While the recent ban had shaken the whole country.

Coming back to 2016, there is also a call that smaller denomination currency notes like Rs 50 and Rs 100 will also be substituted by including new features and design. And that repeats us of an incident dating back to early 70s, when there were reports of withdrawing Rs 100 note from flow, and directly stores of people were seen rushing to banks to exchange their Rs 10 and Rs 20 currencies.

## 6. Positive impacts of Demonetization

Demonetization is one of the main steps ever taken in history of India. This was a essential step to be taken from a long time and Prime Minister NarendraModi did it on 8th of November of year 2016. This Demonetization of Money in India has happening presentation its positive impacts is a very short period of time. People of India are escalating this action and ready to disadvantage dealing with difficulties in its place of doing riots and going against it. Application of this plan was really bad and everyone receives this fact. There are many reasons behind bad application of this action because if the application would have been previous then some people strength comes to know about it and then they power have transformed a lot of black money to white before operation of idea.

There are many positive and negative impacts of this demonetization policy over every citizen of country and visitors coming to see India from abroad. So, in this article we are talking about what is the major positive of impacts of demonetization in India.

### 1. No More Black money in India

Black money is the biggest difficult of any economy and it is also measured as the main ailment of any economy. Black money is a parallel economy which makes substance of any country weaker. In Indian economy there is around of Rs.3 Lakh Crore black money inserted and the fact is that total amount mixing in Indian economy is Rs.17 Lakh Crore. This single action of demonetization will whichever take that black money into bank accounts or it will extinguish it.

### 2. End of Fake Currency

As per the ISI (Indian Statistical institute), the movement of fake currency in Indian economy is Rs.400 Crores at every point of time. It was also stated that the Rs.70 Crores fake currency also being inserted every year to Indian economy. Demonetization will also put an end to it as technologies will be able to discard fake notes and also people now will not be able to socialize old previous notes.

### 3. More Bank Deposits and Higher GDP

Most of us know the fact that 86% of Indian currency is in form of 500 and 1000 notes. Demonetization of these 500 and 1000 notes will make people deposit 500 and 1000 notes in bank account which will take them in movement of money in Indian Economy. According to the statement by RBI they have composed over 5.2 trillion of money till 18th November. This credit made in banks

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can improvement Indian GDP to 0.5% - 1.5%. Largest public sector bank of India which is SBI has received Rs.1.27 trillion cash deposits.

#### **4. Low Interest Rates in Money Lending**

Due to low funds in banks, financial institutions are not able to cut down the money lending rates. As huge amount being deposited in banks will cut down money advancing rates in banks and other financial institutions.

#### **5. Lower Property Prices (Back to Circle Rate)**

Many people are saying from a long time that Real Estate industry is built over black money. Circulation of black money in this section is really very huge. As per a report it is studied that 40% of transactions in Real Estate industry is done in black money. Demonetization will make the black money a waste in this section too and also it ends black money transaction. Properties almost everywhere are back at circle rate of that area.

#### **6. Halt over Hawala Transactions**

Hawala rackets got badly pretentious by this demonetization of money done in India. Hawala is a process by which people handovers money from one place to other without actual money undertaking. Hawala approaches are majorly used for easy money washing and terror financing. Hawala rackets met a comprehensive halt to their procedures after this demonetization of 500 and 1000 notes in country.

#### **7. Financial Inclusion**

Huge inflows of money due to demonetization into banks enable them to provide supported loans and other services at low cost to pouches of Jan dhan accounts. The influence of jandhan accounts so far in banking system is under 1%. Due to Demonetization, denominated notes are coming back into the banking system which strengthboost cash deposits in jandhan accounts.

#### **8. Less Fiscal Deficit**

The money which was not so far calculated in income tax system will come under an official way now. Demonetization will raise income tax collection and government will be able to decrease fiscal deficit in fiscal year 2017. This recent move concerning black money will shift economy of India to Prepared sector from disorderly sector.

#### **9. Higher SLR**

Ban on notes will growth demand of government bonds in market. As we all know that cash deposits will be increased due to demonetization will principal to higher Solid Liquidity Ratio (SLR) demand.

#### **10. Rest to Terror in Kashmir**

Kashmir is the place where demonetization has shown it effect earlier. The uprisings in Kashmir which was running from a long time in Kashmir came to a stop due to lack of money supply to the people who was doing it on instructions of others. Hawala method was used to transfer money for uprisings in Kashmir and demonetization has obstructed it completely.

#### **11. No Naxal activities and North East Insurgency**

Naxalies in India was living all beacuse of blackmoney. Now, they don't have funds to do enrollment, have lodging, buy foods and other events. On an approximation their annual turnover was around Rs.500 Crores which they does through terror funding, NGOs, forgery, pressures and local taxes. So, No valid money means no bad activities.

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## **7. Demonetization Advantages and Disadvantages**

Demonetization refers to stopping of current currency units and substituting those money units with new currency units. It is a major choice and it impacts all the citizens of the country because overnight all the money you have become a part of paper which has no value if you do not convert it with new money units or deposit it in the banks. In order to understand demonetization improved let's look at advantages and disadvantages of demonetization

### **a. Advantages of Demonetization**

The biggest advantage of demonetization is that it helps the government to pathway people who are having huge sums of unaccounted cash or cash on which no income tax has been remunerated because many people who receive black money keep that money as cash in their houses or in some underground place which is very problematic to discovery and when demonetization happens all that cash is of no value and such people have two choices one is to deposit the money in bank accounts and pay taxes on such amount and second option is to let the value of that cash abridged to zero. Since black money is used for unlawful activities like terrorism funding, gambling, money laundering and also expanding the price of major properties classes like real estate, gold and due to demonetization all such actions will get condensed for some time and also it will take years for people to produce that amount of black money again and hence in a way it helps in putting an end this circle of people doing prohibited activities to earn black money and using that black money to do more prohibited activities.

Another advantage is that due to people revealing their income by putting money in their bank accounts government gets a good amount of tax income which can be used by the government towards the improvement of society by providing good infrastructure, hospitals, educational institutions, roads and many facilities for poor and needy units of society.

### **b. Disadvantages of Demonetization**

The major disadvantage of demonetization is that once people in the country gets to know about it than originally for few days there is confusion and anger among public as everybody wants to get rid of demonetized notes which in turn sometimes can principal to law and order problem and disordered situation particularly in banks and ATMs which are the only medium to change the old currency units to new currency units. Another difficulty is that obliteration of old currency units and printing of new currency new units involve costs which has to be tolerated by the government and if the costs are higher than benefits then there is no use of demonetization.

Another problem is that popular of times this move is targeted in the direction of black money but if people have not kept cash as their black money and rotated or used that money in other asset classes like real estate, gold and so on then there is no guarantee that demonetization will help in catching corrupt people. As one can realize from the overhead that demonetization has both advantages and disadvantages and it is up to the government to get and examine all the pros and cons and then decide whether it is helpful to go fast with demonetization or not.

## **8. Conclusion**

If the money dissolves, as some collectors would not like to be understood with their cash mound, the economy will not advantage. On the other hand if the currency finds its way in the economy it could have a significant impact. However practices from different countries show that the move was one of the sequences that failed to fix a debt loaded and inflation-ridden economy.

Demonetization in India is a great energy taken by Indian government to battle with black money and corruption. It is a bold decision taken by government. The main purpose of demonetization is eliminating the black money and decreases the corruption. Government of India has become success

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to some amount. Most of the black money has been crumpled. Amount of cash fluidity increased in the bank day by day. And everybody knows if the bank has more credits then bank become stronger. The country in which bank is solid then that county is more financially strong. In future banks will able to do more and more loans to the separate and to the industrial sectors sot that manufacture will grow in our country, employment will be produce, and our country can grow at very fast rate. But this is only future excellences; future few months will show the actual financial condition of our country.

Although Demonetization has generate so many sprints for the citizens of India. Citizens of India confronted so many problems due to the demonetization energy; they faced queue problems in the banks and ATM'S for dropping and withdrawing money. Citizens of India faced problem of less consumption of goods due to the lack of cash liquidity. Several businesses troubled due the lack of liquidity, business owners as well as customer faced so many problems. When government took this brave decision about the demonetization in India, government didn't know that Indian citizen will have to face this kind of difficult for a long time. But government has given so many preparations to the citizens of India for time to time. On the other hand, Indian financial market, real estate market, FMCG Sector, Auto assets backed loans etc. all areweakened for a short time. Some economics expert said that positive impact of demonetization will showed in future.

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