



RECENT TREND ON PEOPLE IMPACT ON DEMONETIZATION IN INDIA-OVERVIEW

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Abstract

Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency: The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. The demonetization had a great significant and suddenly impact on the state of the Indian economy. In this paper, an attempt has been made to find impact of demonetization on the public. The samples of 100 respondents were randomly selected from Chennai District. It is found that four variable namely gender, age, annual income, designation have significant association with the impact of demonetization. It also results that demonetization helps to destroy black money is the first ranking given by the respondents and it is followed by corruption, terrorism etc. India's economy has expanded strongly in recent years, thanks to macroeconomic policies that emphasize stability and efforts to tackle supply-side bottlenecks and structural reforms. Disruptions from demonetization and the rollout of the goods and services tax (GST) did slow growth, the IMF said. Government measures to curb black money and encourage tax formalization, including demonetization and the GST, have increased personal income tax collections substantially (excluding the securities transactions tax). From about 2 percent of GDP between 2013-14 and 2015-16, they are likely to raise to 2.3 percent of GDP in 2017-18, a historic high," the survey said. India's GDP growth for the quarter Jan-Mar '17 was 6.1% as against a forecast of 7.1% by economists. The GDP growth for the entire fiscal year was 7.1%, a reduction from the 8% of the previous year. This drop in GDP was attributed to demonetization by economists.

Key Words: Demonetization, Demonetization in India, Advantages & Disadvantages, Government, Corruption and Currency, Black Money.

I. Introduction of Demonetization in India:

☒ **The First:** In 1946, the currency note of Rs 1,000 and Rs 10,000 were removed from circulation. The ban really did not have much impact, as the currency of such higher denomination was not accessible to the common people. However, both the notes were reintroduced in 1954 with an additional introduction of Rs 5,000 currency. Rs 500 and Rs 1000 notes were introduced in 1934 and after four years in 1938, Rs 10,000 notes were introduced.

☒ **The second:** That came in 1978; the then Prime Minister of India Morarji Desai announced the currency ban taking Rs 1000, Rs 5000 and Rs 10,000 out of circulation. The sole aim of the ban was to curb black money generation in the country. The Indian government had demonetized bank notes on two prior occasions, once in 1946 and then in 1978 and in both cases, the goal was to combat tax evasion by black money held outside the formal economic system. In 1946, the pre-independence government hoped demonetization would penalize Indian businesses that were concealing the fortunes amassed supplying the Allies in World War II. In 1978, the Janata Party coalition government demonetized banknotes of 1000, 5000 and 10,000 rupees, again in the hopes of curbing counterfeit money and black money.

☒ On 8 November 2016, the Government of India announced the demonetization of all 500 and 1000 banknotes 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. The sudden nature of the announcement and the prolonged cash shortages in the weeks that followed created significant disruption throughout the economy, threatening economic output.

☒ Demonetization is the most important and necessary when there is a change of national currency. The old unit of currency replaced with new currency. Demonetization is the process where government declares the currently running currency notes illegal to be tender after the declaration is made. The reasons for demonetization are to control counterfeit notes that could be contributing to terrorism, and the undermine or eliminate the black economy.

☒ India's economy has expanded strongly in recent years, thanks to macroeconomic policies that emphasize stability and efforts to tackle supply-side bottlenecks and structural reforms. Disruptions from demonetization and the rollout of the goods and services tax (GST) did slow growth, the IMF said. One of the biggest achievements of demonetization has been seen in the drastic curb of terrorist activities as it has stopped the funding the terrorism which used to get a boost due to inflow of unaccounted cash and fake currency in large volume. Money laundering will eventually come to halt as the activity can easily be tracked and the money can be seized by the authorities.

II. Need for the Study:

- ☒ To Fake Indian currency notes in higher denomination have increased.
- ☒ To cutoff the supply line money, arms and immunizations to terror funding.
- ☒ To Unaccounted money, often used in any form of corruption and illegal activities.
- ☒ To transform Indian economy into cashless economy.
- ☒ The highest denomination note is essentially 50 to 100 times the smallest denomination Note of one dollar or one pound.
- ☒ The United States, the highest bank note is \$100 and United Kingdom, the highest Denomination bank note £50.

III. Objectives of the Study:

- ☒ To identify the people's impact on demonetization.
- ☒ To analysis the demographic profile of the respondents in Chennai District
- ☒ To describe the demonetization concept in India.
- ☒ To identify the Demonetization success and failures.
- ☒ To analysis the Demonetization outlook 2018

IV. Review of Literature:

☒ **Rahul Prakash Deodar (2016)** "Black Money and Demonetization" The Government of India announced that the Rs 500 and Rs. 1000 denominated currency notes will cease to be legal tender. The move was targeted towards tackling black money, corruption and terrorism. After initial euphoria, questions began to emerge. What are the costs of this demonetization? Will it be effective if people can still create new black money thereafter? The author concluded that it is just one move of one piece in the chess board of black money. To check-mate the black money king, you have to win the board. There are various steps required as detailed above. Government can play all these moves and still fail if they play improperly. All we can say is that Government is playing well. But will it succeed? The efforts will bring massive amounts of cash into the banking system – a benefit in itself. Once the money is in the legitimate channels, it should be better utilized and revenue will be generated from its use. If that is success enough then yes.

☒ **Dr. Pratap Singh & Virender Singh (2016)** "Impact of Demonetization on Indian Economy" India has amongst the highest level of currencies in circulation at 12.1% of GDP. Cash on hand is an estimated at around 3.2% of household assets, higher than investment in equities, or roughly around \$ 220 billion. Of this cash, 87% is in the form of Rs 500 and Rs 1,000 notes or roughly Rs 14 lakh crore (\$190 billion). A significant portion of the household cash on hand is generated by economic transactions that are not reported to tax authorities or generated through corruption. Scrapping the higher denomination money would either result in these being brought into the system or the money just disappearing. The study highlights the probable consequences of this decision on various economic variables and entities. The author concluded that if the money disappears, as some hoarders would not like to be seen with their cash pile, the economy will not benefit. On the other hand if the money finds its way in the economy it could have a meaningful impact. However experiences from different countries shows that the move was one of the series that failed to fix a debt-burdened and inflation-ridden economy.

V. Demonetization in India success and failure

- ☒ The tax collected due to launch of demonetization policy will be put to developmental activities in the country.
- ☒ Demonetization has driven the country towards a cashless society. Lakes of the people even in remote rural areas have started resorting to use the cashless transactions. The move has promoted banking activities. Now even the small transactions have started going through banking channels and the small savings have turned into a huge national asset.
- ☒ The high rising price pattern and inflationary trends which the Indian economy was facing are taking a down turn making the living possible within low income group reach.

☒ Demonetization policy of the Government has been termed as the greatest financial reform that aims to curb the black money, corruption and counterfeit currency notes.

☒ All the people who are not involved in malpractices welcomed the demonetization as the right move.

☒ Demonetization was done to help India to become corruption-free as it will be difficult now to keep the unaccounted cash.

☒ Demonetization will help the government to track the black money and the unaccounted cash will now flow no more and the amount collected by means of tax can be better utilized for the public welfare and development schemes.

☒ One of the biggest achievements of demonetization has been seen in the drastic curb of terrorist activities as it has stopped the funding the terrorism which used to get a boost due to inflow of unaccounted cash and fake currency in large volume.

☒ Money laundering will eventually come to halt as the activity can easily be tracked and the money can be seized by the authorities.

VI. Demerits-Blow to economic growth and inconvenience all around

☒ The very next day of announcing the demonetization, the BSE Sensex and NIFTY 50 stock indices fell over 6%. The severe cash shortages brought detrimental impact on the economy. People trying to exchange their bank notes had to stand in lengthy queues causing many deaths due to inconvenience and rush.

☒ The sudden announcement has made adverse impact on business and economy. Instead of a growing economy India has become a standstill and no growth economy. It is feared that a fall of 2-3% in the GDP growth will be recorded coming year.

☒ India is agriculture based economy. Due to the cash crunch, the farmers especially small and marginal who largely depend on cash to buy seeds, fertilizers and to pay for sowing, borrowing water for irrigation and for other related agriculture equipments remained worst affected and could not complete the crop related activity.

☒ Since small branches of the banks were also not supplied with adequate cash within time of sowing season of the crop, farmers could not get their crop loans disbursed. This added to the woes of the farmers leading to a weak agriculture production the coming year.

☒ Real Estate sector came to a standstill and is still gasping for buyers of the constructed and half constructed inventory without buyers. This has resulted in poor cash flow leading to a poor demand.

☒ Demonetization has made the situation become chaotic. Tempers are running high among the masses as there is a delay in the circulation of new currency.

☒ Due to the inability to pay cash to poor daily wage workers, the small employers have stopped their business activity.

☒ The poor planning on the part of the government has also added to the woes of the common people with low incomes. The Rs.2000 currency note does not find many takers as it is difficult to get the balance back when you are buying daily needs like vegetables, milk, and bread or paying for petty expenses like bus fare. While rs.100 currency notes were not available in sufficient number, Rs.500 note arrived in the market very late.

VII. After demonetization in India's GDP Growth

☒ India's GDP growth seen decelerating to 6.5% in 2017-18 from 7.1% in 2016-17

The Central Statistics Office's (CSO's) first advance estimate for India GDP growth rate in 2017-18 at 6.5% is lower than the 7.1% recorded in 2016-17. GDP growth of 6.5% for 2017-18 implies growth of 7% for the second half. Confirms strong turnaround of the economy, Nominal GDP, or gross domestic product at market prices, is expected to grow at 9.5%, slower than the 11.75% growth assumed in the 2017-18 budget. Nominal GDP will be used as the benchmark for most indices such as fiscal deficit in Union Budget 2018, India has the potential to achieve GDP growth rate of over 7-8% in view of policy changes, accompanied by a supportive global environment.

VIII. Research Methodology:

☒ Chennai District is the study area selected for this research, primary data is collected through well structured questionnaire. Samples of 100 respondents in Chennai District have been selected by using random sampling method. The collected information were reviewed and consolidated into a master table. For the purpose of analysis the data were further processed by using statistical tools. The statistical tools are

- ☒ Simple percentage
- ☒ Chi-Square Test
- ☒ Ranking Method

IX. Limitation of the Study:

- ☒ The study is restricted to the selected sample of Chennai District and hence the result of the study cannot be generalized.
- ☒ The statistical methods used to analyze the data have their own limitation.
- ☒ All the limitations of primary data are applicable to this study.

X. Analysis and Interpretation:

I. Demographic Profile of the People:

☒ **Table no.1** describes the demographic profile of the respondents for the study. Out of 100 respondents who were taken for the study. It has been identified that most (69%) of the respondent are male, (60%) whose age group is under 26 to 50 years, most of (65%) of the respondents are up to school level, (70%) of the respondents are up to school level, (48%) of the respondents are businessman and the annual income of (43%) respondents is above Rs.2, 50,000, (36%) of the respondents belongs to nuclear family.

Table.1. Demographic Profile of the Respondents

Factors	No. Of respondents N=100	%
Gender		
Male	69	69%
Female	31	31%
Age (Years)		
Up to 25	17	27%
26 to 50	60	60%
Above 50	23	23%
Educational Qualification		
Up to High School Level	70	70%
Graduate	22	22%
House Wife	08	08%
Occupation		
Business	48	48%
Employee	32	32%
Professionals'	20	20%
Annual Income		
Up to 1,00,000	15	15%
Rs.1,00,001 to 2,50,000	43	43%
Above Rs.2,50,000	42	42%
Types of Family		
Nuclear Family	64	64%
Joint Family	36	36%

Table.2: Relationship between the Demographic profile of the respondents and Impact of Demonetization.

Variable	Level of Awareness			Total	X2 Value	Table Value
	Low	Moderate	High			
Gender						
Male	22	13	28	63	7.634	5.991
Female	13	08	16	37		
Age (years)						
Up to 25	05	05	04	14	11.499	9.488
26 to 50	26	17	14	57		
Above 50	03	04	04	11		
Educational Qualification						
Up to High School Level	05	05	04	14	6.178	9.488
Graduate	26	17	14	57		
House Wife	03	04	04	11		
Occupation						
Business	17	16	13	46	11.823	9.488
Employee	19	06	05	30		
Professionals	08	07	09	24		
Annual Income						
Up to 1,00,000	03	06	05	14	21.823	9.488
Rs.1,00,001 to 2,50,000	19	13	10	42		
Above Rs.2,50,000	08	07	12	44		
Annual Income						
Nuclear Family	20	09	07	36	3.598	5.991
Joint Family	34	12	18	64		

ii. Relationship between the Demographic Profile of the Respondents and Impact of Demonetization.

Table.2 depicts the relationship between selected demographic variables and level of impact of demonetization of the respondents. It is clear that, the calculated Chi-Square value is less than the table value of 5% level, there does not exist any significant association between educational qualification type of family of the respondents and level of impact on demonetization. Thus the null hypothesis is accepted. It is clear that, the calculated Chi-Square value is greater than the table value at five 5% level, there exists a significant association between gender, age, annual income, occupation and level of impact on demonetization. Thus the null hypothesis is rejected.

Table.3 Shows the Factors impacting the people's on Demonetization

Factors	5	4	3	2	1	Total	Mean score	Class
Demonetization help for destroy black money in India	54	18	14	04	10	100	3.74	1
Demonetization helps for destroy consumption, illegal activities etc,	26	14	42	04	14	100	3.68	2
Implementation of electronic payments	30	14	20	24	12	100	3.22	5
People are affected by demonetization	38	16	22	16	08	100	3.70	3
High impact on real estate, gold rate, stock exchange	38	08	28	08	18	100	3.50	4

iii. Factors impacting the people's on Demonetization

The above table shows about the weighted average of each factor regarding the impact of Demonetization. From the calculated weighted average demonetization destroy of black money is

Been the first by the respondents and it is followed by corruption, terrorism etc.

XI.Conclusion

The demonetization of the highest denomination note undertaken by the government is a big shock to the Indian. The demonetization is taken for several measures such as tax evasion, counterfeit currency and funding of illegal activities. Some people are depositing currency notes in excess of specified limits directly into bank accounts has showed the unaccounted income, subject to higher tax and other penalties. Alternative payments methods, such as e-wallets, e-payments, online transactions using e-banking, debit and credit card usage haven increased and this will shift an efficient cashless infrastructure.

India has the potential to achieve GDP growth rate of over 7-8% in view of policy changes, accompanied by a supportive global environment, Demonetization of old currency notes surely has had **some positive impact** like reducing the cash flow to terror organizations, dismantling of counterfeit currency infrastructure, better income tax and indirect taxation, boost to digital economy.

The Central government's decision to demonetize the high value currency notes is one the major steps towards the eradication of black money in India. Demonetization has major impact in

curbing black money to an large extent as jandhan accounts have seen sharp rise in deposits and people who provide funding for terrorism by fake currency notes feel their backbone completely broken. People are facing some problems due to demonetization but it is pain for our better time only so we should support method of cashless economy for better future of Indian economy.

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