

Demonetisation & Its Socio- Economic Impact on India

***Payal Bassi**Rajni Saluja**

**Associate Director, University School of Management, Desh Bhagat University, Mandi Gobindgarh*

***Associate Professor, University School of Management, Desh Bhagat University, Mandi Gobindgarh*

Abstract

The objective of the paper is to highlight the socio-economic impact of demonetisation adopted by Government of India. It focuses on benefits and challenges faced due to implementation of demonetisation. Impact of demonetisation on common man is also observed. The study concluded that demonetisation has not only sown the seeds for cashless India but also raised hopes in the minds of young India that black money will be weeded out soon.

Keywords: *Demonetisation, Black Money, India*

Demonetisation

Government of India recently took a historic decision of demonetising 500 and 1000 rupee currency notes which were 86% of total currency to fight against the socio-economic evils. Demonetisation is the process of eliminating the currency from the circulation. In Indian context it means withdrawing of the currency by Reserve Bank of India as official mode of payment. It implies that the said currency ceases to be a legal tender.

Prior Instances of Demonetisation in India

Demonetisation is not a new concept for India. It was done twice before in 1946 and 1978.

1. On January 1946, the pre-independent government of India passed the High Denomination Bank Notes (Demonetisation) Ordinance. According to which the currency notes of Rs.500, Rs. 1000 and Rs.10,000 were demonetized. The aim was to curb black marketing.
2. On January 1978, the high currency notes of Rs.1000, Rs.5000 and Rs.10,000 were demonetized again with a view to curb black money transactions. But it did not have any significant effect on cash.
3. The government has implemented a major change in the economic environment by demonetizing the high value currency notes – of Rs.500 and Rs.1000 denomination. These ceased to be legal tender from the midnight of 8th of November 2016. The first and second demonetization affected really high value notes which formed a small part of notes in circulation.

But this time the demonetized notes were forming 86% of cash and were highly in circulation. The announcement appears to be the most important change made by the Government to date. It is one of the historical steps in India. Demonetisation is an urgent implementation in Indian economy because Rs.500 and Rs.1000 are calculated to be 13.5 lakhs of crores of currencies in circulation.

Issues in Demonetisation

The Government took this step mainly to dissolve certain issues in the economy which are acting cancerous to the health of the economy.

- Bring out Black money
- Abolition of Fake money
- Control the Inflation
- Reduce the Rate of Interest
- Make it Digital India through E-transactions
- Transparent money transaction
- Increase the Tax Revenue

Objectives of the Study

- To study the impact of demonetisation on common man in India.
- To study the impact of demonetisation on economy of India

Research Methodology & Database of the Study

The focus is on a qualitative approach to research. The study makes use of qualitative content analysis. Being a topic that is of current importance, the research focuses primarily of written content in various newspapers by leading economists and politicians and reports by government and private organizations. Relevant information has been collected from internet sources, newspapers, national and international magazines etc.

Impact of Demonetisation on Common Man

It has been observed that innumerable difficulties are faced by common man and are highlighted as follows:

- The change did invite a lot of trouble to the public in the beginning. Initially, there was a

huge hue and cry about the idea people had to wait in really long queues just to withdraw the necessary money they needed.

- There was a limit to the per-capita withdrawal and that was a huge issue for many people mainly because of their personal requirements which included marriage, health, property etc.
- In the process of curbing black money the innocent common people and poor seemed most suffered like those people who do not have access to post offices and banks had seemed panicking for exchanging notes.
- Farmers have faced lot of problems because they could no longer afford to sell their harvest from kharif crop or sow rabi crops.
- Many daily wagers were unable to find work.
- Demonetisation has a direct impact on sectors dealing with cash vendors, auto rickshaws, owners, taxi drivers, daily wage earners and small traders.
- The Indian system mainly functions on cash and so less cash means disruption in the flow.
- Government's step to curb black money and fake currency has hit hard to poor people the most.
- Sudden announcement and failure to prepare in advance has created temporary chaos and discomfort among the general public.
- In both urban and rural India, the country's large informal economy has been disrupted

Impact of Demonetisation on Indian Economy

Indian Economy is also remarkably affected by Demonetisation.

- Demonetisation has increased the deposit of demonetized currency notes.
- GDP in short run got adversely affected by demonetisation. Since the injection of liquidity is slow, there was cash crunch and it lead to fall in the consumption which in turn slowed down the investment plans of firms and ultimately fall in GDP.
- The Asian Development Bank forecasted that India's GDP growth would reduce to 7% from 7.4% for the current fiscal 2016-17.
- After demonetisation, the income taxes rose because of increased disclosure.

- The payments to local bodies also increased because demonetized notes remained to be the legal tender for tax payments and clearances of arrears.
- Indirect taxes declined as there was reduction in the consumption.
- Payment for utility bills through online mode increased and cashless transactions also increased.
- People started using e-wallets. Credit cards, debit cards/ Rupay card/USSD/UDI, Internet banking, mobile wallets like Oxigen, Paytm, Moniwik, aadhar enabled payment system, POS and so on are few popular modes of electronic transactions which are commonly used by the citizen.

Benefits of Demonetisation

No doubt, due to demonetisation common man has to face lot of problems but it also benefitted the people and society at large.

- Rise Of The Cashless Economy
- Growth Of The Formal Economy Will Be Another Associated Long Term Gain
- Social Shake Up
- Demonetization Will Reduce The Circumference Available Of Parallel Economy
- Large Number Of New Tax Payers May Appear With Demonetization
- Cleaning Of The Real Estate Sector Will Be Associated Long Term Gain Of Demonetization
- Rise In Financial Savings

Challenges of Demonetisation

The announcement for implementation of demonetisation was made overnight. Implementation of this historic step may face various challenges and issues.

- No clear concept of Indian money from Foreign Bank
- Highly affected by the savings economy
- No clear idea about money withdrawals
- To curb small business sectors

- Low transaction by poor, middle and neo middle class people.
- There is no daily wages work in all sectors of Indian economy.
- No permanent and alternative solution of demonetisation.
- More roles for commission agents to exchange old and new currencies.
- Lack of New Five hundred rupees currencies

Conclusions

Demonetisation will have major impact on the parallel economy. No doubt, this step has caused great distress to the general public and their day to day activities. However deflationary effect of demonetisation will also be witnessed in Indian economy in the long run. With demonetisation illicit activities and money laundering too will be checked. Demonetisation has not only sown the seeds for cashless India but also raised hopes in the minds of young India that black money will be weeded out soon.

References

- Balamurugau, S & Hemalatha, B.K. (2017). Impacts on Demonetization: Organized and Unorganized Sector. IOSR Journal of Humanities and Social Sciences (IOSR-JHSS), pp. 1-11. Available on. www.iosrjournals.com
- Bhatnagar, Harshita (2017) Demonetization to Digitalization: A Step Toward Progress, Management and Economics Research Journal, Vol. 3, pp. 11-15
- Dash, A. (2017). A Study of Socio Economic Effect of Demontization in India. International Journal of Management and Applied Sciences, 3(3), pp. 13-15.
- Jayasudha, S.M. & Thangvel, M. (2017). An Empirical Study on the Major Problems Faced due to Demonetization by the Small Retailers in Erode City. IOSR Journal of Humanities and Social Sciences (IOSR-JHSS), pp. 18-20. Available on. www.iosrjournals.com
- Mariappan, K. (2017). Issues and Challenges of Demonitisation in India in the year 2016. IOSR Journal of Humanities and Social Science (IOSR-JHSS), pp. 12-13. Available on. www.iosrjournals.com
- Mishra, Deepika (2017). Demontisation: It's Socio-Economic Impact. International Journal for Innovative Research in Multidisciplinary field, 3(5). ISSN. 2455-0620.
- Muthulakshmi, Kamatchi E. (2017). Impacts of Demontisation on Indian Economy- Issues & Challenges. IOSR Journal of Humanities and Social Sciences (IOSR-JHSS), pp. 34-38. Available on. www.iosrjournals.com
- Nandhini, P. & Kalaimani, G. (2017). Demontization: Impact on the Economy.

INTERNATIONAL JOURNAL OF BUSINESS MANAGEMENT & RESEARCH
(ISSN 2249-2143)

IOSR Journal of Humanities and Social Sciences (IOSR-JHSS), pp. 31-33. Available on www.iosrjournals.com

- Sangeetha, S. (2017). Benefits of Demontization : Rich and Poor. IOSR Journal of Humanities and Social Sciences (IOSR-JHSS), pp. 29-30. Available on www.iosrjournals.com
- Shah, YousufAyash (2017).Impact of Demontisation on Rural india. International Journal of Scientific and Research Publications, 7(3).
- Shanbhogue, Girish (2016). A Study on Demontization of 500 and 1000 Rupee Notes & Its Impact on the Various Sectors and Economy. International Journal of Research Economics and Social Sciences (IRJESS), 6(12), pp. 274-284. Available on <http://euroasiapub.org>.
- Sriram, K.V. &Lewlyn L.R. Rodrigues (2017). Effect of Demontization in India- Economic, Political and Social Perspective, Proceedings of Annual Eurasian Business Research Conference, 30-31 March, 2017, Phillipines.