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Demonetization'16: The after shocks

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Abstract

On the eve of November 8, 2016, Prime Minister of India Sh. Narendra Modi made an astonishing declaration that Rs. 500 and Rs. 1000 notes would stop to be a legitimate tender from November 9, 2016. This declaration sent shockwaves all through the nation and the economy at both the large scale and small scale levels. While some saw it as a stern stride to avert the essential fiendishness of black money, others felt it to be a relentless stride which could upset and wreck the development of the whole Indian economy. This paper endeavors to comprehend and understand the delayed repercussions of the Demonetization ship that left the docks in 2016.

Keywords: Black Money, Currency, GDP, Demonetization, Indian Economy

1. Introduction

Demonetization alludes to the procedure of withdrawal of a specific type of money presently available for use. The pulled back money is recovered and supplanted with another cash unit. It includes either presenting new notes or coins of a similar denominations or totally supplanting the old denominations with the new ones and is generally completed as a snare on the clack money.

The 2016 demonetization in India is the greatest counter assault on dark cash that the nation has ever observed. Before the demonetization, Rs. 500 and Rs. 1000 notes made up roughly 86.5% of the cash available for use. In money related terms, it implied withdrawal of a whopping greatness of Rs. 15,347 billion or around 11% of GDP from our economy.

Comprehensively, demonetization was actualized to address four destinations:

- To check Corruption;
- To control illegal terror financing;
- To check fake and counterfeit money; and
- To check hoarding of Black Money.

This is not the main occasion of demonetization being practiced as an arrangement activity by India. India has completed demonetization practices twice some time recently, in 1946 and 1978. In Jan 1978 scene, money worth Rs. 1.46 billion (1.7% of aggregate notes available for use) was demonetized. Of this Rs. 1.0 billion (or 68%) was offered back. In 1978 the estimation of Demonetization was little (just 0.1% of GDP). Be that as it may, the sheer degree and greatness of the 2016 Demonetization chalks it out as the monstrous monetary activity. (Sabariga E, 2017) ^[10]

The hugeness of the 2016 Demonetization makes it practically sure that there will be aftershocks in the economy. As per a few studies, the antagonistic impacts of demonetization were felt in every one of the fields, yet these impacts were to a great extent transient in nature and were fundamentally directed over the post demonetization period.

2. Methodology

This is a thoughtfully arranged investigation and thusly, theory and testing can't be connected. In that capacity, the opinions communicated in this paper are the author's own particular conclusion and the opinions of some presumed authors.

3. Objectives

The examination is gone for satisfying the accompanying targets:

1. To give a concise portrayal of demonetization in the year 2016 in India.
2. To portray the impacts of the demonetization executed in 2016.

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4. Effects of Demonetization

Liquidity crux: Reduced liquidity has caused a sharp decrease in the accessibility of discretionary and disposable income, influencing spending and consumption in the economy for the time being. Dominatingly India is a cash dependent economy and combined with the absence of cash accessibility, there will be a serious decrease in utilization amid the demonetization time frame and for quite a while post that period.

The dynamic sections of the populace that to a great extent make utilization of cash as often as possible will lose income without fluid currency. Cash stringency will induce producer firms to diminish the work cost, along these lines lessening the wages of the poor common laborers. With time, the general population in the higher level of pay would in all likelihood confront the stream up impact of the liquidity crux.

Development and GDP: The constriction of consumption, pay, and investment will undoubtedly stop the development rate of the Indian economy. It may lose its momentum of financial growth. This is very obvious from the drowsy development rate of 6.1% for the quarter post the demonetization when contrasted with the general yearly development rate of 7.1% in 2016-17.

Cash escalated sectors, for example, agribusiness, real estate, FMCG, automobile, and so on were influenced more when contrasted with different sectors, because of decreased liquidity, working capital and supply chains.

Be that as it may, this effect is relied upon to be transient. In addition, in the more extended term, if Demonetization is fruitful, it will decrease the equilibrium money GDP and cash-deposits proportion in the economy. This will increment monetary investment funds which could positively affect long run development.

Deposits and Interest Rates: Deposits climbed forcefully in the short term, money declined then again. In any case, this would not be a reasonable effect, as individuals who made deposits put away fluid cash accessible with them, and hence these would not bring about long haul deposits. These are not willful investment funds deposited for acquiring premium. In future, once the remonetization is in full impact these would be changed into liquidity.

An expansion in the deposits base empowers banks to bring down the mixed cost of funds as higher CASA (current accounts, savings accounts) deposits empower substitution of higher acquiring expenses and diminishing the general cost of funds. This may lead to decrease in the financing costs on deposits and advances, yet such decay would just be practical over the long haul if the deposits turn out to be durable.

Digitalization: With cash exchanges affected by diminishing liquidity, alternative and digital payment modes, for example, e-wallets, online transaction utilizing e-banking, debit and credit card usage has expanded fundamentally. This will build utilization of such payment frameworks, and empower a move towards a productive cashless foundation.

Digitalization brings individuals into the formal economy, subsequently expanding money saving, diminishing tax avoidance, and making everything fair between tax compliant and tax evading firms.

With remonetization underway, even though individuals have begun enjoying cash transactions and exchanges, the administration's push towards a less money or a money lite economy, will continue to act as a driving force on digitalization.

Wealth: Private riches have declined as a portion of the high denomination notes were not returned or could be deposited into banks, because of stringent controls forced on deposits by the legislature and the RBI.

Demonetization has profoundly affected the land values. There has been a significant fall in the land costs, supporting to the reality of declining private riches.

Real Estate: Real estate costs dove post the demonetization as the money deficiency deterred the exchanges in the sector. Be that as it may, this may have been a surprisingly positive turn of events as it might prompt accessibility of reasonable lodging for the working class and may even encourage portability of workers crippled by the exorbitant rents.

Black Money: The entire bulk of the black money is not stored by the general population as cash yet out the type of physical and profitable resources like gold, land, buildings and so on. Just an irrelevant bit of black money which is held as cash is relied upon to be countered by the demonetization.

In spite of the fact that demonetization would just counter the liquid black money held by individuals and other entities, it might serve as a stringent strategy encouraging reduction in the stream of unaccounted income, consequently checking the generation of black money.

Demonetization has been deliberately utilized as policy initiative to tread towards money lite and more formalized economy on one hand and as a special tool to make familiarity with black money in the citizens, then again.

Tax Collection and Tax Compliance: Demonetization can be additionally seen as a measure to further the administration in India. It was executed with the goal of taxing the bulk possessions of black money. Numerous hoarders and pawns of the dark currency market were brought under the tax net. Black money hoarders have endured generous misfortune either in form of tax penalties or in transformation expenses to tax criminals.

Bank accounts are as yet being screened for suspicious exchanges, which imply that the individuals who are involved in money laundering run the risk of punitive taxes and indictment, notwithstanding the expenses or taxes officially paid.

The state's resolve towards the tax avoidance has been made express through their directions amid the demonetization time frame. It has been made bounteously obvious that tax avoidance is unfortunate from the financial perspective as well as from a social outlook. Tax avoidance now has two particular sanctions– financial penalty and social judgment – which could scar the sidestepping individuals. In such a situation, the dodgers may choose that in the years to come, it would be a doable alternative to pay a direct customary tax as opposed to undertaking the danger of paying a sudden punitive duty. Along these lines, corruption and compliance could be for all time influenced.

In addition, demonetization has helped the economy to take a step towards the electronic or digital payments systems. Family units and business entities bulk of whose prior exchanges were made in cash, amid the demonetization have understood the simplicity and accommodation of digital modes of payments. This would round up the advantages of formalized economy and assist the tax administration with furthering the tax consistence objective.

5. Conclusion

Demonetization as a cleanup measure may have a few long haul benefits for the general public and economy. Digitalization, fall in real estate values, tax compliance and formalized economy are some unsought after advantages which would be procured from demonetization. Then again, demonetization may have a few expenses on the economy too as decrease in growth rate, private wealth, and fall in consumption.

The greater part of the effects seems, by all accounts, to be transient in nature, for example, the ascent in banking deposits. The ascent in CASA deposits ought not to be seen as a lasting apparatus. The deposits rose on the grounds that the people and substances needed to store cash set aside for transactions and exchanges looming the demonetization of notes of expansive denominations. As the remonetization takes effect, excess deposits made amid the demonetization are probably going to decay.

Demonetization was broadly acknowledged and upheld by the masses because of its apparent advantages. The apparent advantages of having a more formalized and transparent economy, and decrease in black money exercises may trump the expenses to the economy, making demonetization a fruitful strategy activity over the long haul.

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