

Blessings of demonetization in Indian Economy – A study

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Abstract

The study about the concept of demonetization and its impact. After demonetization the economy had affected the different sectors mainly, retail, stock markets, E-commerce, financial inclusion, Gold market etc. Demonetization has the positive impact of the economy. To control the black money and inflation rate it came into effect. The paper describes that demonetization affect the current economy but in future it makes the Indian economy as a digital economy and people give more importance to buy and sell the product through online.

Keywords: Demonetization, Black money, E-commerce, Digital marketing.

Introduction

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. Sometimes, a country completely replaces the old currency with new currency. Demonetization is necessary when there is need of development in particular economy. The main aim of demonetization in India is to increase the cashless transaction.

- 12th January 1946 The measure did not succeed as by the end of 1947, out of a total issue of Rs. 143.97 crores of the high denomination notes, notes of the value of Rs.134.9 crores were changed. Thus, notes worth only Rs.9.07 crores were probably “demonetized”, not having been presented. Rs. 1000 and Rs.10000 were withdrawn and new notes of 1000, 5000 and 10,000 were introduced in 1954.
- 16th January 1978 The Janata Party coalition government again demonetized banknotes of 10,000, 5000, 1000. The demonetization of high denomination bank noted was a step primarily aimed at controlling illegal transactions.
- In 1980 stainless coins of 25paise, 50 paise, and 1 rupee coins were introduced, after a period. 10 paise coin went out of circulation in the market. Coins are get demonetized from June 30, 2011. Coins are 1paise, 2 paise, 5 paise, 10 paise, 20 paise, 25 paise and government had issued the notification on December 2010. 1000 and 10000 were in circulation between 1938 and 1946. 1000, 5000 and 10,000 notes were reintroduced in 1954 and demonetized in 1978.
- Mahatma Gandhi series notes were introduced in 1996 are being replaced by the MG series 2005 with some additional security features pre.2005 banknotes are exchanged at any bank branch till June 30 2015.

- Hence coins have the greater value than the face value. The amount of producing the one coin is more than the value printed in the coin. The government faces more revenue problems in making a coin.

Literature Review

R. Sunita and Dr. Hansa Lysander Manohar(2017) study about the value of Indian rupee against the us dollar. The value of Indian currency are decreased after demonetization. The Indian rupee depreciated by 5.71 percent against us dollar. The efforts are made highlighted and necessary steps taken by the government when the notes are demonetized and causes and affects of demonetization in the particular period.

Geetha Rani (2016) explained about the effects of demonetization in retail outlets. Credit span extension was given by whole seller and also by retailers. Through this study demonetization effect will be positive in Indian economy, adopting the cashless transaction there will be check on black money.

Mrs. Porinita Banrejee and Mr. Vasimraja Sayyed (2017) studied about the consumer behavior of purchasing through online. The study is to understand and analysis the consumer frequency on buying the product and the mode of payment after demonetization through online shopping.

Parul Mahajan and Anju Singla (2017) studied the effect of demonetization for ordinary individual, informal sector, rural population, MSMEs, NBFSSs, MFIs and e- wallet. One of bank deposits called binami deposits also come up with the effect of demonetization in India.

Nikita Gajjar(2016) study about the black money in India and measures to control the black money, and where the black money gets generated in different levels. To control the black money demonetization is the best to control the black money in India. Demonetization reflects policy, strategies and procedure that government are pursuing.

Dr. M. Celladurai and Dr. V. Sornaganesh (2016) stated that about 98% of peoples are using cash for purchase of product. The impact of demonetization in different sectors like professionals, FMCG goods, e-commerce industry, non- banking finance companies, small medium enterprise, stock market, etc. concluded with the reduction of black money in the economy, and improvement of technologies like ATMs, paytm, etc., for day to activity.

B.M. Saini (2015) stated that ways to control the black money and anti-laundersing, most of the developed and developing countries are moving towards to cashless transaction. Mostly 68% is of population are using cash for transaction before demonetization. The major benefits of demonetization is cashless transaction which makes time consuming, safe and secure, up gradation of technology etc.

Objective

- To study the concept of demonetization.
- To know about the demonetization effect in different sector.
- To analyze the positive impact of demonetization.

Methodology

The paper based on secondary data. The data has been collected form internet.

Demonetization effect of various Sectors

Retail sector: In retail sector the volume of sales has reduced due to demonetization of currency. The sales has make normal while accepting old currency in bank. Non availability of cash in the economy the retailers and wholesaler expand the credit span for the customers has increased. Through credit span increased by wholesalers and retailers, the consumer has by the product as they required. Consumers has using online wallet like paytm, credit cards, etc., by adopting cashless means of transaction there will be a checkon black mone.

E-commerce: After demonetization the frequency of customer buying product through online was increased. Cash on delivery mode has reduced because of non-availability of cash in the Indian economy. If cash on delivery option is selected the discount will be given to the consumer after demonetization. Mostly credit cards and debit cards are used for making the payment. Demonetization boost the digital marketing with help of cashless transactions. India is in 2nd smallest county for the online marketing in the year 2017. According to RBI data in November 2016 number of m-wallet transactions stood at 138.09 million and in December the number jumped to 213.11 million. The survey pointed out that the number of daily users of e-wallet has decline to 9.2% from 39.8%, while those using it once in 2-3 days fell to 12.3% from over 42%.

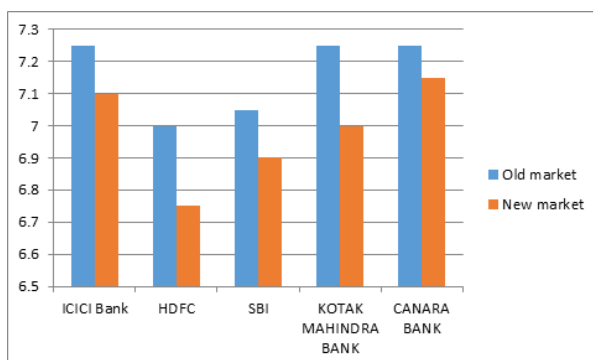
Gold price: In financial inclusion the price of gold has taken into consideration. After demonetization the rate

of gold was decreased for a certain period, when the flow of money is less in the Indian economy. Demonetization helps in investing the amount in gold, when the old currency are accepted. Investment in gold is increased as such the value decreased.

Stock market: Demonetization makes that the value of stock price is reduced. Investors are advised to invest in the stock market. Values of all the shares are come down. The national stock market, and Bombay stock market, were slightly makes the reduce the sensdex and nifty are in negative impact in the Indian economy. Shares in different sectors also reduced for specified period of time. There is a comparison of banking sector of 5 banks are ICICI bank, HDFC banks SBI bank, Kotak Mahindra bank, and Canara bank. The shares values are reduced due to large investment or deposits in bank. Around 86% of money are 500, 1000 rupee.

Banks	Old market	New market
ICICI Bank	7.25	7.10
HDFC	7	6.75
SBI	7.05	6.90
Kotak Mahindra Bank	7.25	7
Canara Bank	7.25	7.15

Source: bseindia.in



Positive impact of Demonetization

Control in circulation of black money: Black money is major impact for the Indian economic deficiency. More than 20% of black money is in circulation in the Indian economy. Through demonetization the black money will be deposited in account or will be destroyed.

Increase of bank deposits: Rs. 500 and Rs. 1000 are most widely used currency notes by the public. When the notes are striping the people are depositing money in their account within the specified period of time. RBI has declared that bank had received Rs.5.12 trillion worth of deposits until 18th November. Increase in bank deposits India’s gross domestic product (GDP) has rise by 0.5 to 1.5%.

Huge investment in bond market: Withdraw of currency notes will enhance the demand for government bonds in the market. As we know it has improve cash

deposits in the banks which eventually lead to higher statutory liquidity ratio (SLR) demand.

Revenue to Government: When the black money is invested, the person must want to pay tax for the amount. So, thus increase the income to the government by collecting income tax. When revenue is increased the government reduces the fiscal deficit in the fiscal year 2017. The government moves the unorganized sector to organized sector.

Over lending rates: When the amount invested in the banks is raised, the cost of borrowing is reduced. So the bank reduces the deposits rates by 125 bps over the next six months.

Control in circulation of fake currency: According to ISI (Indian statistical Institute) the circulation of the total amount of fake currency in India is Rs.400cr. at any given point of time. It is also estimated that around Rs.70cr. fake currencies are being injected into India every years.

Continuous real estate cleansing: Mostly real estate business is done only through black money. According to report at least 40% of real estate transactions in Delhi NCR are being done only with black money. Through demonetization the real estate business curb down the flow of black money in the particular sector.

Monitoring financial inclusion: The inflow of cash into bank through deposits will enable them to offer subsidized open an account in the bank called Jan Dhan account.

Control Hawala transactions: Hawala is a method of transferring money without any actual movement. Hawala transactions means to ease money laundering and terror financing. After demonetization the hawala transaction has come down to a constant half.

Conclusion

This paper concludes that, the demonetization affect the people in doing day to day activities. In future demonetization will be more effective in different sectors, where there is an improvement in digital marketing and making the Indian economy as a cashless economy. Demonetization will improve the standard of living of the people after amount is deposited in bank. There is more benefit of demonetization which will effect only after a years, when the cashless transaction is practiced in the Indian economy. There will be more positive impact on demonetization when the people are transferred to digital marketing.

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