

## Impact of Demonetization on Indian Economy

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Demonetization is a drastic intervention into the economy involving removal of the legal tender status of a currency. Demonetization is used as a tool to stabilize a currency and fight inflation, to facilitate trade and access to markets and to push informal economic activity into more transparency and away from black and gray markets. Impact of demonetization is extremely immense and fundamentally major as far as Indian economy is concerned. An attempt has been made in this paper to discover the elements and effects of demonetization on the Indian economy and its kin. It is observed that the principle for leading demonetization by the Government was to evacuate black money which appeared to be vital for arresting anti-national activities and for fighting against corruption. The exercise may produce various short-term or long-term impacts on economy. The study attempts to perceive the meaning and reasons of demonetization. This study also gives an insight into the positive and negative impact of demonetization on Indian economy.

*Key Words:* Demonetization, Indian economy, Black money, Currency, Government, Corruption

### Introduction

Demonetization necessitates a change of national currency. Indian economy has the potential to achieve a double-digit growth rate. In spite of being a bright spot on the world map, a multitude of problems like black money, corruption, money laundering, counterfeit currency, tax evasion, terrorist financing, etc. face India which casts shadow on its governance credentials. The Government in the Centre under the dynamic leadership of Prime Minister, Shri Narendra Modi has a vision to make India modern and vibrant economy. It was in this context that the Government of India decided to withdraw the legal tender character of Rs.500 and Rs.1,000 banknotes from the midnight of November 8, 2016 and also the issuance of new Rs.500 and Rs.2,000 banknotes (RBI Report, Nov., 2016). One major objective of the demonetization exercise is to encourage cashless or electronic transactions in the economy. The Government has taken policy decisions to support digital transactions and has, in this respect, announced a number of incentives. Demonetization practice needs to be seen in this perspective. The exercise may produce both short-term or long-term impact on Indian economy.

### Research Method

This study is of descriptive nature and tells about the meaning and reasons of demonetization along with its positive and negative impacts on Indian economy. The entire study is based on observation and documentary analysis. The researcher, being an external analyst, has to depend mainly on the current literature available on this particular issue

in the forms of books, journals, articles, research studies, websites, etc. Essential data were likewise collected through individual meeting strategy from the general population individuals, private merchants, retailers, street side sellers and sustenance slow down. Editing, classification and tabulation of the data collected from the aforesaid sources have been done as per the requirement of the study. This paper being based on concepts, the opinions expressed in this paper manifest basically the author's own opinion, thought etc. and also of some reputed authors.

### Review of Literature

Arpit Guru and Shruti Kahanijow (2010) analyzed the income from black money and showed spread of black money in India to a large extent which continuously stashed towards abroad largely. They also identified how black money had caused menaces in Indian economy and how it is used in several ways (Gautam, Indu and Jain, Sameeksha, Jan.-Mar., 2019). Sukanta Sarkar (2010) conducted a study over the causes and impacts of black money in India and observed that the main reason behind the generation of black money is the Indian political system. The Government stressed on making committees rather than implementing it. The study suggests for implementation of laws properly to control black money in the Indian economy.

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Tax Research Team (2016) showed the impact of demonetization on the availability of credit, spending, level of activity and Government finances and stated in favor of demonetization. Shanbhogue Girish, Kumar, A. Prashanth, Bhat, Swathi and Shettigar, Chethan (2016) defined currency ban as a move to stop counterfeit bank notes allegedly used for terror financing as well as a surgical strike to black money and corruption in the country. They concluded that demonetization is advantageous in short, medium and long-term. Kamatchi (2017) in her paper, "Impacts of Demonetization on Indian Economy-Issues and Challenges" stated that demonetization move, on the one hand, was a serious attack on black money, corruption, hawala transaction, counterfeit currency and terror financing; on the other hand, it had a negative impact on various sectors like commodities and real estate. Shah, Ayash Yousuf (2017) stated that with an intention to free the country of black money and excavate tax defaulters and black money holders, the Government's sudden announcement of demonetization and failing to plan properly has created chaos among the general public. Common people facing problems for buying with no money in their hands and wasting their time standing in endless queues could have easily been avoided with advance planning. Veerakumar, K. (2017) expressed that the announcement of demonetization by the Government is a big shock to the citizen of India. The highest currency notes are withdrawn from the economy to controvert the problem of tax evasion, counterfeit currency and financing terror activities. Usage of e-wallets, debit and credit card has been increased tremendously creating better cashless infrastructure. Abhani Dhara K. (2017) argued that although the demonetization move has failed to grab total black money in the economy, this has at least created fear in the minds of people holding black money. He concluded that demonetization is a compulsory step to tackle the problem of black money, terrorism, corruption, etc. Shukla, Bal Govind and Gupta, Hariom (2018) in their paper, "An Exploratory Study Of Business Students Perspectives On Demonetization In India: With Special Reference To Allahabad City" concluded that the people actively supported any initiative taken by the Government which are basically aimed at eradicating corruption, black money and any other threats like terrorism and naxalism in the country.

### Objectives of the Study

The prime objectives of the study are:

- To discuss the demonetization concept in India.
- To identify the impact of demonetization on Indian Economy.

### Reasons of Demonetization

Although India is rapidly increasing in terms of growth but she is ranked 76 in Global Corruption Perception ranking clearly showing how corruption and black money have spread their tentacles. Anti-nationalists use fake notes for illegal activities and India being a nation of cash-based economy, the circulation of fake currency continues to be a threat. The following are the important reasons of demonetization:

**Black money:** Demonetization is a bold and revolutionary step taken by the Government to curb black money. A few businesses like property dealers, jewelers, foreign currency dealers, private money lenders, etc. generally hold huge unaccounted money in the form of currency notes creating parallel economy in the country. Such illegal money has reached the bank accounts through direct or indirect channels.

**Fake currency rackets:** The most important reason for demonetization is the rise of fake currencies and also the higher occurrence of black money in the economy. Fake currency with racketeers has been left in vain and new currency notes with high security making counterfeit impossible. Demonetization was a surgical attack on fake currency circulating in the economy and converted these currencies into mere pieces of papers.

**Online transactions:** Demonetization's motto was to encourage cashless or digital economy. Reduction in cash transactions demands more alternative forms of payment like Electronic mode of payment e.g. online transaction, payment through applications, E-wallets, E-banking, usage of debit and credit cards, etc.

**Maoists activities:** This step actually made money with Maoists worthless. Maoists had stored secretly a vast amount with them at Baster in Chhattisgarh. All such currency now turns into pieces of papers.

**Rise in GDP:** Although demonetization has negative impact on sectors like real estate and property, construction and household consumption in general, it is believed that long-term benefits for GDP growth will outweigh the short-term transitional impact. We are now moving towards higher GDP growth by FY2018-19.

### Objectives of Demonetization

The main objectives of demonetization are to curb black money, corruption, illegal goods sales and other illegal activities such as human trafficking and counterfeit currency that would curtail the shadow economy and reduce the use of illicit and counterfeit cash to fund illegal activity and terrorism (India Today, Nov., 2016 & The times of India, Nov., 2016). Other declared objectives

include expanding the tax base and increasing the number of taxpayers, reducing cash transactions, funds available to terrorists and radical groups like Maoists and Naxalites and integrating the formal and informal economies.

India's economy depends heavily on cash. ATMs are scarce and few rural Indians have credit or debit card. In addition, many people are without bank account and the Government identification necessary to open an account. By comparison, approximately 7 % of Americans are unbanked with an additional 20 % under banked according to the Federal Deposit Insurance Corporation(FDIC).

### **Impact of Demonetization**

Demonetization as a tool to modernize a cash-dependent developing economy and to arrest corruption and crime makes the larger denomination notes worthless. Individuals and entities with large sum of black money received from parallel cash system were forced to convert the money at a bank which is by law required to collect tax information from the entity. The aftermaths of demonetization that happened on November 8, 2016 still haunt the Indian economy. The following discussion will show the effect of demonetization for and against India's economic development.

### **Demonetization Favored India's Economic Growth**

With demonetization, the common people and bankers has undoubtedly faced sufferings since 86% of currency in circulation has been rendered illegal in one single stroke. Demonetization surely hampered the current economy and will continue to do so in the near term and will also impact India's growth but will have positive long lasting effects. Ex-Finance Minister, Arun Jaitley on November 7, 2017 came out with demonetization announcement "watershed moment for the Indian economy" and not only a "morally and ethically correct" step but also "politically correct". The key points describing its success are:

- Demonetization helps the Government tracking 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 social welfare and development schemes.
- One of the biggest achievements of demonetization is in the drastic curb of terrorist activities as it has stopped funding the terrorism.
- Money laundering will eventually come to halt as the activity can easily be tracked and the money can be seized by the authorities.
- Demonetization aims to stop the running of parallel economy weakening the base of the country's economy due to circulation of fake currency as the banning of Rs.500 and Rs. 1,000 notes will eliminate their circulation.
- Unaccounted cash could be deposited in the Pradhan Mantri Garib Kalyan Yojana after paying 50% tax. Money lying deposited for 4 years with the bank without incurring any interest will, however, be returned after 4 years which can be utilized for social welfare schemes and making the lives of low income group better.
- Public Sector Banks running short of funds have suddenly swelled with lot of money that can be used for future finances and loans after keeping reserve as per the RBI guidelines.
- Jan Dhan account holders become familiar with banking activity. Money deposited in these accounts can be used for the developmental activities of the country.
- Demonetization has driven the country towards a cashless society. People even in remote areas have started resorting to use cashless transactions. Now, even the small transactions have started going through banking channels and the small savings have turned into huge national asset.
- High rising price pattern and inflationary trend which the Indian economy was facing are now making the living possible within low income group reach.
- As prices of commonly consumed commodities like pulses, fruits, vegetables, etc. had gone down substantially in post-demonetization, it brought down the rate of inflation also.
- Going down banks' finance to small business and negative growth even in short period turned into positive growth in this direction in post-demonetization.
- Negative growth of sale of two wheelers and four wheelers went up substantially and showed high positive growth in post-demonetization.
- Instead of using cash, more people have started using Mobile wallets for making payments of their regular needs. Even less educated people have learned and switched over to mobile transactions.
- Steps against the people with disproportionate income identified by the tax officials and extraction of tax with penalty will achieve the objective of fighting black money.

- Bank deposits have swelled as more and more Indians poured their money into the formal economy which was one of the primary objectives of the currency ban exercise helping to slowly dismantle India's large shadow economy.
- Smuggling of arms and dealing with the terrorist will not sustain further as the money will be on record now. Banking system will improve as it will slowly move towards a cashless society increasing credit access and financial inclusion.
- In the long-run, tax and interest rates on loans are expected to come down as higher income-tax collection arising from better compliance would offer scope to reduce rates which, in turn, will drive up disposable income offering positive impact on consumption demand.
- The RBI spent huge amount on note printing to demonetize Indian money market in post-demonetization phase affecting its profit that reflected in the dividend payable to the Government.
- It will cause deflation in the market as people earning money through illegal ways would be afraid to declare the money since they may be prosecuted by the Income-tax department on the legitimacy of their income.
- Loans become easier and interest rates come down. More loans ultimately increase the money supply in the market and create inflation.
- Restrictions on ATM withdrawals proposed by the Government slowly replace the cash transactions in daily prone activities.
- Real estate industry is totally corrupted and now by this stringent decision, real estate sector will bring in more transparency.
- Service sector dominating economic activity and involving sizable chunk of cash transactions will likely hit the hardest.
- Demonetization of currency directs black money to buy gold, thus, heightening the demand for gold in economy.
- Demonetization will trigger the ascent in FDI inflows in the nation. Better framework and GDP development would pull in huge number of speculators along these lines raising the FDI inflows.
- Demonetization would specifically impact the demand for luxury goods like cars, inside stylistic layout, dress, collectibles, gadgets and so forth.
- Demonetization has proved to be turning point for the economy by cleaning-up the black money which, in turn, has brought more borrowings to the treasury, improved inflation outlook and increased GDP of India.
- Hawala had become the route to facilitate money laundering and terror funding. Demonetization was a big thrash to the hawala racketeers. Sudden withdrawal of black money out of the economy was a surgical strike to hawala operations.
- Counterfeit currency is one of the main reasons behind the devaluation of the real worth of Indian currency. Demonetization is a strong blow in this direction.
- Demonetization decision to ban old currency notes of Rs 500 and Rs 1,000 notes and replacing them with new one completely sucked the circulation of fake currency. New currency notes having come with highly advanced security features are barely possible to replicate.
- Black money is the major source of fund for Maoists. With demonetization move, black monies are reduced to pieces of papers. Ever since note ban, no major incidence of violence took place from the states like Andhra Pradesh, Odisha, Telangana and Chhattisgarh.
- Stone pelting has reduced in Kashmir because of note ban. Demonetization completely dismantled the Kashmir unrest with this surgical strike.
- Apart from cutting deposit rates, banks reduced lending rates as well. In India, loans sanctioned from April 1, 2016 are with reference to the MCLR (Marginal Cost of funds-based Lending Rate) instead of the earlier used Base Rate which will translate into lower interest rates on existing floating rate loans and new loans.

### **Blow to India's Economic Growth**

The sudden announcement of demonetization followed by cash shortages in the weeks subsequently created significant disruption throughout the economy. The following are the adverse impacts of demonetization on Indian economy:

- India being an agriculture-based economy, the farmers especially small and marginal largely dependent 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 activities due to cash crunch.

- Since small bank branches were not supplied with adequate cash, farmers could not get their crop loans disbursed which added misery to the farmers leading to weak agriculture production.
- Demonetization has made the situation chaotic as there is delay in the circulation of new currency.
- Inability to pay cash to poor daily wage workers led the small employers to stop their business activities.
- The Government's poor planning has also added to the grief of the common people with low incomes. Rs.2,000 currency note makes many takers difficult to get the balance back against buying daily needs like vegetables, milk, bread or paying for petty expenses like bus fare.
- Demonetization is the two-way sword relating to public expenditure. On the one side, huge cost is to be incurred on printing new currency and on the other side, managing the huge cores of old currency volume has also become high expensive.
- Many economists opine that Rs.2,000 currency note will be much easier to hide and can be stored black money in shorter space.
- One cannot ignore the increased cost of operating ATMs need to be refilled more often and also it is a huge burden on bank.
- Decision of the surgical strike on black money was not taken in a day or two; this plan is the result of Prime Minister's meticulous planning and never ending fight against corruption.
- Property transactions and luxury housing segments tended to have significant cash components and such sales have been hampered significantly due to demonetization.
- Shadow of demonetization now appears to be withering in reality sector. Attractive house loans, flexible payment plans and other offers coupled with restricted new supply addition has led to steady fall in the unsold inventory.
- As per recommendation of the Central Board of Direct Taxes in 2012, "demonetization may not be a solution for tackling black money or shadow economy which is largely held in the form of benami properties, bullion and jewelers"(The Indian Express.Nov., 2016). According to data from income-tax probes, black money holders kept only 6% or less of their wealth as cash, suggesting that targeting this cash would not be a successful strategy (Hindustan Times, Nov.,2016).
- Cash ban failed to create bank savings culture. Household savings to banks went down significantly after demonetization.
- Note ban sent the economy into tailspin. Several institutions, including the World Bank, have cut India's growth forecast.
- According to the RBI report, 2018 banknotes not deposited were only worth Rs.10,720 cores or 107.2 billion (Dutta, Prabash K. Aug., 2018) leading analysts to state that the effort had failed to remove black money from the economy(Financial Times, Aug., 2017& BBC News, Aug.,2017). The BSE Sensex and NIFTY 50 stock indices fell over 6% on the day after the announcement(Rukhaiyar, Ashish,2016).The move reduced the country's industrial production and its GDP growth rate( India Today, 2018).
- The Government's restriction on daily withdrawal amounts added to misery, though a waiver on transaction fees helped a bit. Small businesses and households struggled to find cash and reports of daily wage workers did not receive their dues.
- A major problem is that big fishes will be left out whose black money is in the form of foreign currency, gold and property and stashed in tax havens.
- Demonetization gave rise to liquidity problem as marginal section of the society basically dependent on cash found it difficult to get sufficient cash to fulfill their basic needs.
- The lower middle and lower class sections of the society have lost their income in the scarcity of cash. Cash crunch makes firms to cut their labor cost and thus reduces income of the lower middle class.
- Cash shortage adversely affected the consumption behavior of the people in India. Most of the purchases by retailers are through cash that brought down their volume of trade.
- Most of the black money is kept in the form of land, gold and buildings etc. Hence the amount of unaccounted money deposited with the banks is only up to the amount of cash deposited.

### Reactions of Renowned Economists

Raghuram Rajan, Reserve Bank of India's former Governor and Gita Gopinath, Chief Economist of the International Monetary Fund remarked that demonetization was "not a good idea" and that its implementation was "not well-planned". Bibek Deb Roy, Chairman of the Economic Advisory Council

to Prime Minister and Economist said demonetization should not be seen through a narrow cost-benefit calculus but as a move aiming at "institutional cleansing". Nobel laureate Amartya Sen severely criticized the demonetization move calling it a "despotic action" among other things(The Hindu, Feb., 2017, PTI, Nov., 2016 & Desk, India.com News, Nov., 2016). Kausik Basu, former Chief Economist of the World Bank called it a 'major mistake' and said that the 'damage' is likely to be much greater than any possible benefits(Roychoudhury, Arup, Nov., 2016 & PTI, November, 2016). T. N. Ninan, Economist and Journalist wrote in the Business Standard that demonetization 'looks like a bad idea, badly executed on the basis of some half-baked notions'(Ninan, T. N., Dec., 2016).

### Demonetization Successful or Not?

**Black money:** According to the RBI report, 2018 approximately 99.3% of the demonetized banknotes were deposited with the banking system which had further muddied the water. Banknotes not deposited were only worth Rs.10,720

cores(Dutta, Prabash K., op.cit.). Commentators concluded that the Government failed in its aim of cleansing black money from the economy(Financial Times, Aug., 2017).

**Evasion:** Reports were about stratageming the restrictions imposed on exchange transactions at different bank branches and also sending hired people, employees and followers in groups to exchange large amount of demonetized banknotes at banks(Parmar, Beena, Nov., 2016 & The Indian Express, Nov., 2016). Cash deposited or collection boxes in temples and gurudwaras got exemption from inquiry by the tax department which is sometimes misused to launder money. Many people booked a large number of railway tickets to dispose of unaccounted cash.

**Counterfeit Banknotes:** The number of counterfeit Rs.500 and Rs.1,000 (demonetized version) banknotes saw an increase in 2016-17 and subsequently a decline in 2017-18. But in 2017-18, there was an increase in counterfeit Rs.500 and Rs.2,000 (new) banknotes than the previous year(RBI's Annual Report, Aug., 2018). The following summarizes the picture (Table-1).

Table-1: Number of Counterfeit Banknotes detected in Banks (April - March)

Denomination	2015-16	2016-17	2017-18
Re..1	2	3	4
Rs.2 and Rs.5	2	80	1
Rs.10	134	523	287
Rs. 20	96	324	437
Rs. 50	6,453	9,222	23,447
Rs. 100	2,21,447	1,77,195	2,39,182
Rs.200	NA	NA	79
Rs.500 (Old)	2,61,695	3,17,567	1,27,918
Rs. 500 (New)	NA	199	9,892
Rs.1000	1,43,099	2,56,324	1,03,611
Rs.2000	NA	638	17,929
Total	6,32,926	7,62,027	5,22,783

Source: RBI's Annual Report, The Wire. 30 August 2018

There has been no significant change in the number of counterfeit banknotes detected. In 2017-18, the number of detected counterfeit banknotes was close to the number before demonetization(Padmanabhan, Vishnu, Sept., 2018). Additionally, after demonetization only 0.0035% of Rs.1,000 banknotes were found to be counterfeit(The Hindu, Aug., 2017).

**Tax-GDP Ratio (%):** Tax compliance increased with increase in number of income-tax returns filing but majority of them were from salaried and non-business class. Tax-GDP ratio(Padmanabhan, Vishnu, Sept., 2018) increased

due to tax base(Sharma, Tanisha, Sept., 2018). An analysis of the economic data shows that there has been no substantial increase in the number of new tax payers or direct tax collection due to demonetization(india.com., Nov., 2016). Demonetized banknotes were allowed for the payment of municipal and local civic body taxes leading to jump in their revenue collections. Hyderabad Municipal Corporation reported collecting about Rs.160 cores in cash payments of outstanding and advance taxes within the first four days of demonetization( india.com., Apr., 2018).

Currency-to-GDP ratio declined from 12.1% in 2015-16 to 8.8% in 2016-17 but increased again to 10.9% in 2017-18 (Padmanabhan, Vishnu, op.cit.). This ratio was marginally lower than the pre-demonetization (The Indian Express, Nov., 2016) level.

**Digital Payments:** Push for the digital payments was one of the stated intentions of the demonetization (Padmanabhan, Vishnu, op.cit.). There was immediate and sharp jump in digital payments owing to cash shortage. Mobile wallet transactions picked immediately after demonetization. After return of cash, growth in digital payment was modest (RBI's Annual Report, Aug., 2018).

**Banknotes in Circulation:** The RBI in its annual report of March 2016 stated that in terms of volume, 24% of the total Rs.9026.6 cores banknotes in circulation were Rs.500 and Rs.1,000 banknotes (Dutta, Prabash K., Aug., 2018). Before demonetization, there were banknotes worth Rs.17.97 lakh cores in the market. Demonetized banknotes constituted 86.4% of it (Padmanabhan, Vishnu, Sept., 2018). Banknotes in circulation had reached to the level before demonetization in March 2018 (Dutta, Prabash K., op.cit.). By March 2018, there were banknotes worth Rs.18.03 lakh cores in the market; increase of 9.9%. New banknotes of Rs.2,000 and Rs. 500 constitute 80.6% of it. So, there was only 5.8% increase in small denomination banknotes (RBI's Annual Report). Volume of banknotes in the market increased by 2.1% (The Indian Express, Mar., 2019). Banknotes in circulation further increased to Rs.19.5 lakh cores in September 2018 and Rs. 21.41 lakh cores in March 2019, 19.14% higher than the level before demonetization (The Times of India, 2016).

**Terrorism and Internal Security:** Initially there was a decrease in the activities and attacks by Maoist and Naxalite radical groups owing to lack of finance following demonetization. Surrender rate reached its highest (Jain, Bharti, Jul., 2018). The activities returned within few months (Hindustan Times, Dec., 2016). Terror activities in Jammu and Kashmir decreased.

**Cash Shortage:** People faced difficulties in depositing or exchanging the demonetized banknotes due to long queues outside banks and ATMs across India. ATMs were shortage of cash. Although the general public faced severe cash shortage, some individuals were able to accumulate new banknotes stating the demonetization exercise as futile (Hindustan Times, op.cit.).

**Transportation:** Many truck drivers and conductors were affected with cash shortage. Major highway toll junctions on the Gujarat and Delhi-Mumbai highways found long queues as toll plaza operators refused the demonetized banknotes (Business Today, Oct., 2018).

Suspension of toll collections on all national highways across the country till 2nd December and acceptance of demonetized Rs.500 banknote as a toll from the next day to 15th December (Mukundan, Anagha, Jun., 2017) by the Ministry of Road Transport and Highways eased the way temporarily.

**Stock Market:** NIFTY 50 and other NIFTY sector indices evidenced an adverse impact of demonetization on stock market returns (The Hindu, Feb., 2017). A study (July 2016 - February 2017) on 54 companies listed in NSE showed that companies in cement, cotton and rubber sectors evidenced an increase in total trade whereas companies in automotive, clothing, foods, paper, real estate, retail, steel, sugar, tea and textiles sectors evidenced decrease after demonetization (Anoop, Patil; Parab, Narayan; Reddy, 2018).

**Industrial Output:** Cash shortage (Seth, Dilasha, Dec., 2016) reduced industrial output. Fall in the Purchasing Managers' Index (PMI) from 54.5 in October 2016 to 46.7 in November 2016 being the sharpest decline in three years (Seth, Dilasha, op.cit.) indicates slowdown in both manufacturing and service industries (Business Standard India, Nov., 2017). The PMI report also showed that the reduction in inflation in November 2016 was due to shortage in money supply (Seth, Dilasha, op.cit.). Growth in eight core sectors such as cement, steel and refinery products, etc. constituting 38% of the Index of Industrial Production (IIP) was only 4.9% in November 2016 as compared to 6.6% a month ago (Huffington Post India, Nov., 2016).

**Agriculture:** Demonetization adversely affected agriculture sector largely dependent on cash. Due to shortage of new banknotes, many farmers have inadequate cash to purchase seeds, fertilizers and pesticides required for the plantation of rabi crops (India Today, Jan., 2017). Farmers in several places like Gujarat, Amritsar and Muzaffarnagar protested against demonetization and restrictions imposed by the RBI on district central cooperative banks (First post, Nov., 2016, PTI, op.cit., The Indian Express, op.cit. & Hindustan Times).

They were unable to recover even the transportation cost from their fields to the market from the low prices offered (First post, op.cit. & Hindustan Times, op.cit.). Some farmers dumped their produce in protest against the Government. Demonetization resulted in the relative erosion of agricultural wages and weak bargaining power of farmers for their product (Hindustan Times, op.cit.).

**Real GDP Growth:** Global analysts cut their forecasts of India's real GDP growth rate for the financial year 2016-17 due to demonetization. Q4' 2016-17 rate was 6.1% as against a forecast of 7.1% by economists (Business Today, 2017). A reduction from 8% in 2015-16 (Firstpost, 2017) to 7.1% in 2016-17 was attributed to demonetization

by economists. GDP growth rate for Q1' 2017-18 dropped to 5.7%, compared to 7.9% a year ago (Hindustan Times, 2017), the lowest since March 2014. This drop was attributed to demonetization as well as inventory drawdown by companies due to implementation of Goods and Service Tax (Business Standard India, Feb., 2018 & The Hindu, Aug., 2017). GDP started recovering from Q2' 2017-18 and clocked 8.2% in Q2' 2018-19 (The Times of India, Oct., 2018, The Times of India, Oct., 2018 & The Hindu, op.cit.)

**Employment:** Many people lost their jobs and were declined in wage particularly in the unorganized and informal sector and in small enterprises (PTI, 2017 & Maganti, Rahul, 2016). Demonetization (Business Standard India, Aug., 2018) adversely affected the migrant workers. Centre for Monitoring Indian Economy (CMIE) reported that there was fall of 1.5 million people employed (Vyas, Mahesh, 2018). CMIE attributed the impact to demonetization as well as implementation of Goods and Service Tax (Dutta, Prabash K., Aug., 2018).

**Cost to Banks:** Cost of printing new banknotes escalated to Rs. 7,965 cores in 2016-17 and Rs. 4,912 core in 2017-18 (Dutta, Prabash K., ibid.) resulting fall in the dividend paid to the Government in 2017-18 which caused fiscal deficit for the financial year 2016-17 to increase.

**Welfare Schemes:** Demonetization adversely impacted on the Middle Meal Scheme due to shortage of funds (The Hindu, 2018, Deccan Herald, 2017 & The Wire, 2018).

**Deaths:** Many people died from standing in queues to exchange their demonetized banknotes. Hospitals refused to accept demonetized banknotes; deaths took place lacking medical help. By the end of December 2016, political opposition leaders claimed that over 100 people died due to demonetization (IANS, 2016 & Indo-Asian News Service, 2016). In March 2017, the Government stated that they received no official report on deaths due to demonetization (The New Indian Express, 2017).

### Criticisms

Demonetization attempts to stop counterfeiting of the current bank notes allegedly used for funding terrorism as well as crack down on black money in the country. Banks and ATMs across the country faced severe cash shortages. People seeking their notes had to stand in queues due to the rush to exchange cash. The move received support from several forums. However, it was heavily criticized by members of the opposition parties in both houses of the Parliament and triggering organized protests against the Government at several places across India. Analysts opined that demonetization move of the Government would hit the economy

hard in the short-term albeit benefitting the country in the long-run. Demonetization move is expected to have a negative impact on inflation.

### Concluding Comment

Roadmap for demonetization is what the markets are anxiously waiting to hear from RBI. There is clearly a cash crunch. There could be just one solution to ensure that the economy does not suffer for too long supply of more cash in the market. Since most of the currency in circulation is already in the banks and not lying buried under pillows or being thrown into the Ganges, the old currency notes can be introduced into the market making them legitimate tender again.

### Conclusion

Demonetization essentially represents a change in regime for the real and financial economy. Internationally, more countries could potentially see this as a viable option to curb black money and stem illegal financial activity. Such an action achieves significance for a globally connected India as it shows boldness in tackling issue remaining thorn in the growth success story of this generation. Demonetization as a cleaning exercise may produce several immeasurable benefits of having more transparency and reduced volume of black money activities in the economy. At the same time, it creates unavoidable income and welfare losses to the poor sections of the society receiving income based on their daily work and having no digital transaction culture. Decision regarding demonetizing the old currency is considered as a surgical strike against the undeclared money in the history of Indian economy indicating move towards the cashless economy. Demonetization would bring positive impact on national economy as it encourages the digital mode of payment. We congratulate the Government and those hidden brains of our democracy who brought this decision.

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