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POST DEMONETIZATION IMPACT ON ECONOMY OF INDIA

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ABSTRACT

Demonetization in India will be five years old on November 8, 2021. It was on this day in 2016, at 8 p.m., when Prime Minister Narendra Modi announced that the 500- and 1000-rupee notes — which together constituted 86% of the money in circulation — would no longer be considered legal tender in India. According to its initial stated goals, the policy of demonetization was meant to encourage the use of digital payments. A major promise of demonetisation was that hoarders of cash would be obliged to deposit it in the banks as a result of the currency being demonetized.According to the Prime Minister's announcement of the policy, "Which honest person would not be saddened by news of crores of currency notes secreted beneath the mattresses of government officers? Or by stories of money recovered in "gunny sacks"". People who possessed unexplained cash were expected to either disclose it to the tax authorities or get rid of it. Demonstration has been regarded as a "surgical blow" against corruption by many.

KEYWORDS: *Demonetization, Impact of Note Ban of Economy.*

INTRODUCTION

Corruption is closely related to the amount of money in circulation. The use of money obtained through unethical means only serves to exacerbate inflation. As a result, the poor are forced to suffer the brunt of it. There is an immediate impact on the purchasing power of those who are less fortunate. If you've ever purchased property or a house, you know that a considerable sum of cash is required in addition to the check payment. An honest person's ability to purchase property is hindered by this. Prime Minister Narendra Modi's Nov. 8 address cited a rise in the cost of goods and services including homes, land, higher education, and health care as a result of the abuse of currency [1].

The research analytics provided an in-depth look at these figures on February 2, 2017. "The total amount deposited under these two categories may be estimated by multiplying the number of accounts with the average deposit amounts stated by Jaitley. This offers a total of Rs5.48 lakh crores for deposits under Rs80 lakh, and Rs4.89 lakh crores for deposits beyond Rs80 lakh. A total of Rs10.38 lakh crore has been deposited in these two categories. There was around 15.44 lakh crore in money that was demonetized, and this works out to almost two-thirds of that amount. Individual deposits of Rs80 lakh or more have accounted for 31% of the entire amount of demonetised money, according to these estimates. This data shows that the super-rich have re-deposited a considerable portion of the demonetised cash, according to the report [2].

Those hopes (and possible flames) were quickly smothered. As soon as ArunJaitley delivered his post-demonetisation budget address on February 2, 2017, he offered the first indication that there had been no large-scale cleanup of unauthorised currency deposits. Post-demonetisation, a detailed picture emerges from the early examination of depositors' old-currency savings. 1.09 million accounts were opened between November 8 and December 30 with deposits of between Rs2 lakh and Rs80 lakh, with an average deposit amount of Rs5.03 lakh. According to the Budget Address, more over 80 lakh deposits were made in 1.48 lakh accounts with an average amount of Rs3.31 crores.

Although the initial policy statement did talk about lowering the quantity of cash in circulation in the Indian economy, many individuals now describe demonetisation as a nudge toward digital payments [3].

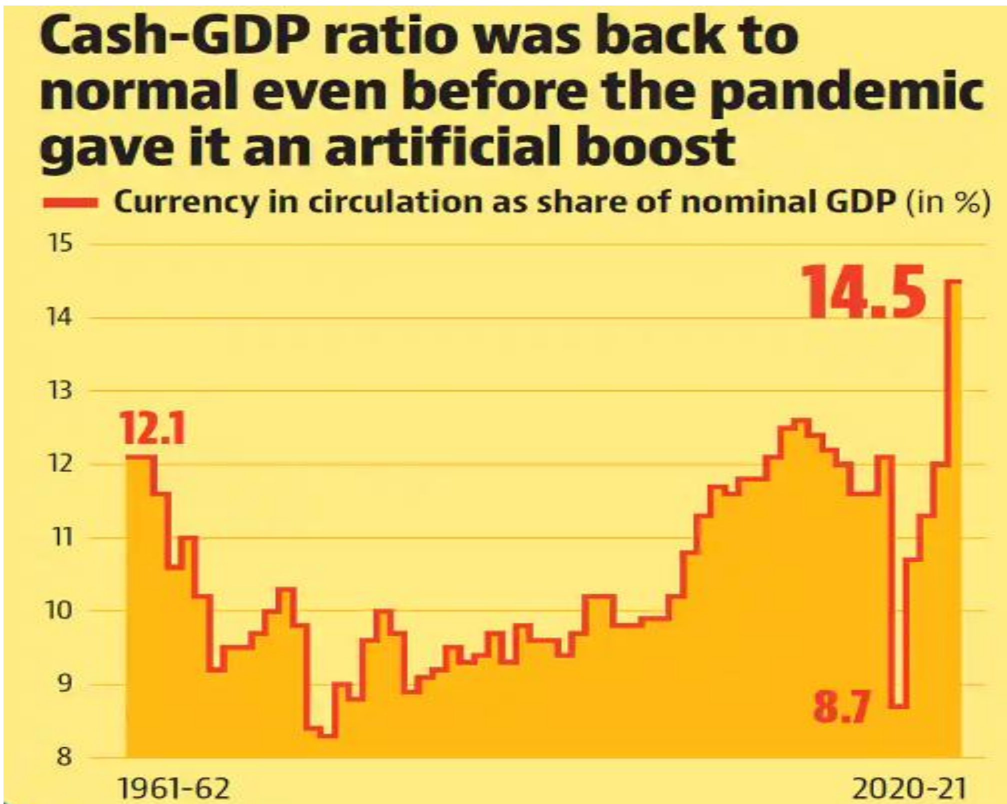

Figure 1 : Cash GDP Ratio

It's unclear whether or not India has become a cashless economy after demonetisation, despite the fact that digital payments have expanded dramatically since that time (more on this later). When determining this, the most appropriate indicator to use is the nominal GDP to currency in circulation ratio (at the conclusion of a fiscal year) (in that fiscal year). Before demonetisation, currency in circulation accounted for 12.1% of nominal GDP in India.

In 2016-17, it fell to 8.7 percent as the banking system struggled to replenish the economy's cash supply following demonetisation. It has continuously risen since then, reaching a peak of 12 percent in 2019-20. If the nominal GDP ratio is restored to its pre-demonetisation level, then there was no substantial impact on the economy until 2019-20.

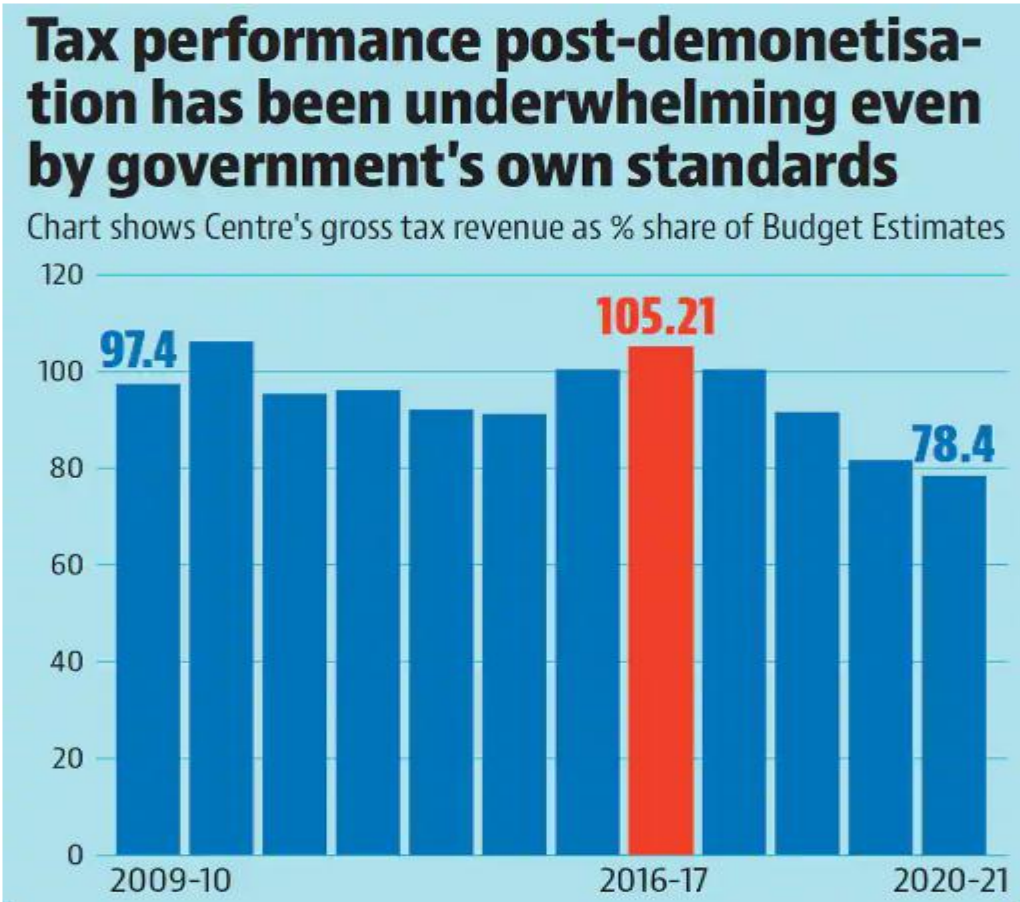

Figure 2 : Tax Performance Aspects

In 2020-21, this percentage hit an all-time high of 14.5 percent. As a result of the pandemic's economic disruption, India's nominal GDP shrank by 3% in 2020-21, which drove up the cash-GDP ratio, rather than an abrupt increase in cash preference in the Indian economy [3].

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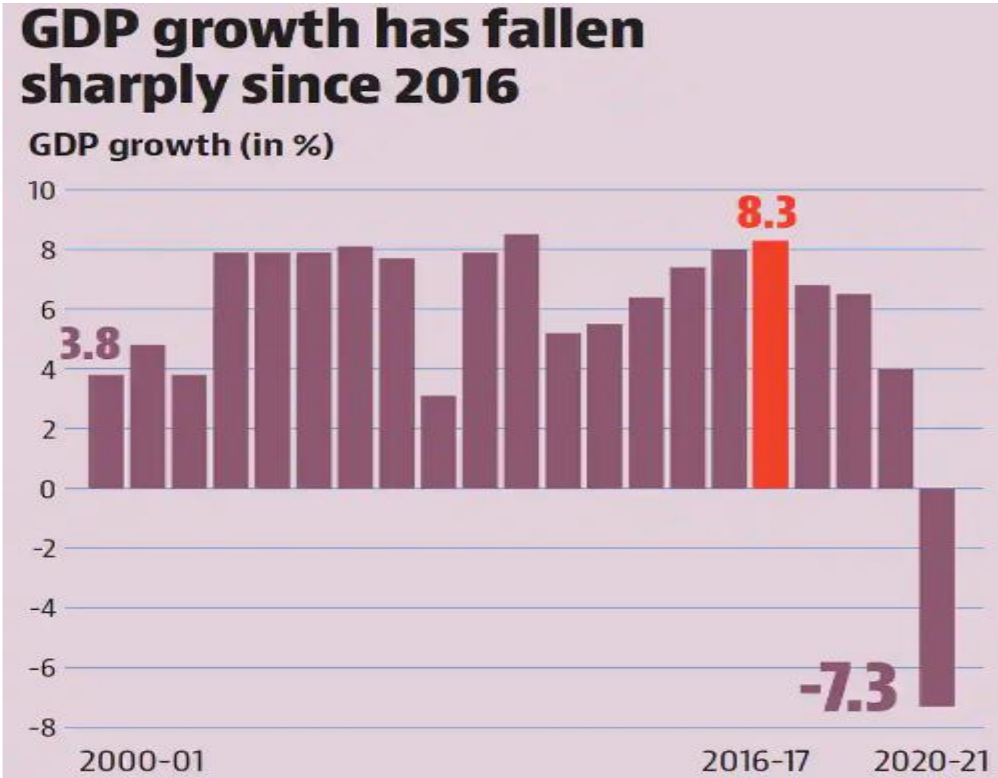

Figure 3 : Status of GDP

This is a trickier one to answer than the one about the cashless economy. Due to the fact that tax receipts in India have been hurt by more than just demonetization. In July 2017, the Goods and Services Tax went into effect. Due to a substantial cut in Corporation Tax rates, direct taxes fell by more than half in September 2019. A substantial drop in GDP and tax receipts was caused by the epidemic while economic watchers awaited long-term impacts of the corporation tax reduction. There are a number of qualifiers that need to be taken into account when looking at the government's total tax collection in relation to its budgeted objectives, which are a good indicator of whether the government's own expectations concerning tax collection have been met [4].

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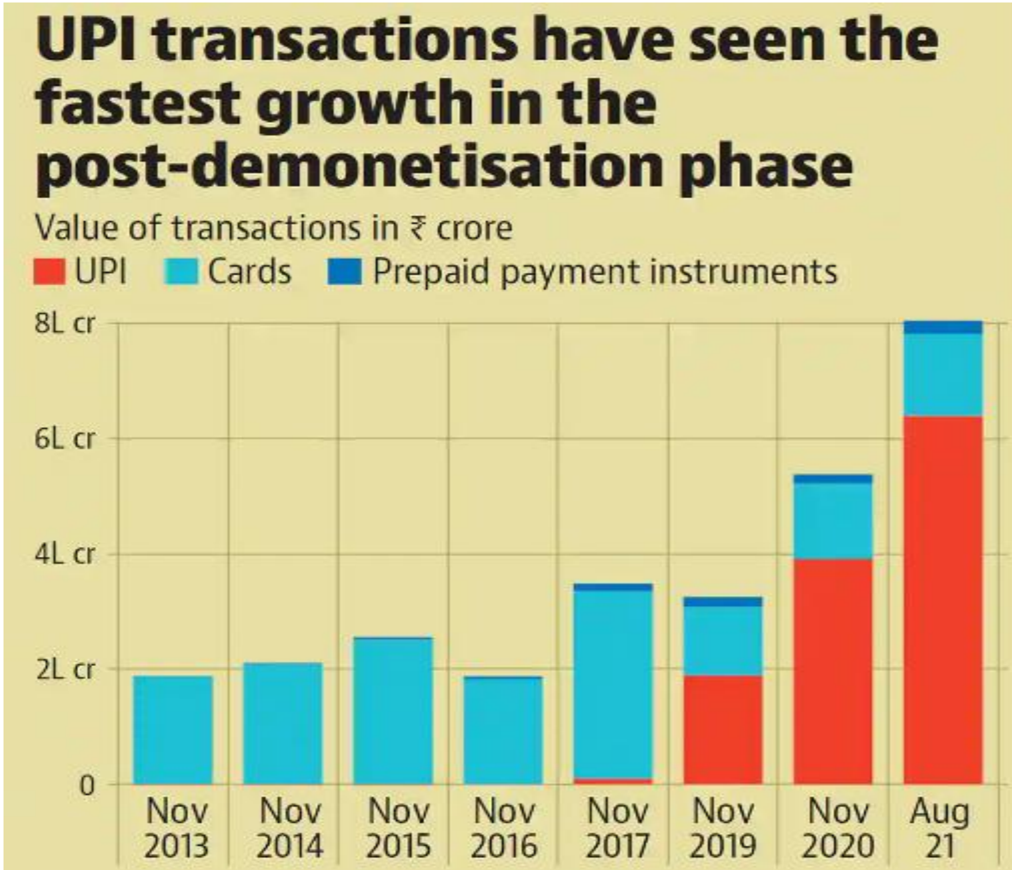

Figure 4 : UPI Transactions

Demonetization occurred twice earlier in India's history. For starters, a year and a half before India's Independence Day, on January 12th, 1946, all denominations of the Rs. 1000, Rs. 5000, and Rs. 10000 were removed from circulation. In 1938, the Reserve Bank of India (RBI) released the Rs. 10000 note, which was the biggest denomination note ever printed by the RBI in India. But in 1954, the Rs 1000, Rs 5000, and Rs 10000 notes were all brought back. When an edict was issued on January 16th, 1978, to phase out notes of Rs. 1000, Rs. 5000, and Rs. 10000, the second phase of demonetization was completed. It was decided to demonetize currency on January 12th, 1946, but the Direct Tax Enquiry Committee noted in its interim report that Demonetization was not effective since only a small percentage of the total currency in circulation was demonetized in 1946 and its value was Rs. 1,235.93 crores. High-denomination banknotes were demonetized on January 16th, 1978. As of that day, Rs. 146 crore had been demonetized and Rs. 125 crore had been surrendered to the Reserve Bank of India as of August 1981.

Demonetization has both positive and negative effects:-

'Black Money' or 'Dirty Money,' is money that is not taxed and is not reported to the government during the country's tax assessment period, causing the government to lose income. The government's demonetizations measures are said to assist reduce the amount of black money in the country. Removing black money from the economy will also have the added benefit of reducing corruption [5].

SBI Research, the Reserve Bank of India As of March 2016, the public has Rs. 9926 billion worth of high-denomination notes, as seen in the table. The table shows three possible outcomes. There is an assumption that 50% of the higher denomination notes do not return to the system in scenarios 1 and 2. Banks, post offices, and the RBI should be able to swap 60% of the Rs. 500 notes and 40% of the Rs. 1000 notes by March 31, 2017. Such estimations suggest that almost Rs. 4.5 lakh crore of money might be lost from the system.

In the current state of affairs, counterfeit/fake cash is completely removed from circulation.Due to a cash crisis in the country, GDP declines as a result of a decrease in currency circulation. Consumption demand might be reduced as a result of this action, which could have an impact on GDP. There may not be much of a negative impact on GDP by deferring part of the current demand till the cash situation improves [6-8].

Inflation is lower because of increased market liquidity. There is less liquidity and less cash movement in the market because of demonetization, which lowers inflation. If you remove all of your black money, you'll see a decrease in the money supply. In the absence of any open market actions by the Reserve Bank of India, this will lower the inflation rate. Four forms of inflation exist.

Demonetization has had an impact on the buying power of citizens. Property, vehicles, and the cement and steel industries are all examples of long-term investment assets that are particularly vulnerable. These sectors' stock values will have a negative effect. Customers' purchasing power is also impacted by the lack of money because 90% of all transactions in the Indian economy are done in cash [9].

The Real Estate Sector:

In the wake of demonetization, the real estate market was shattered, with a decrease of more than 50% expected to last for the next 5 to 6 months. Despite the short-term impact, experts believe that lower interest rates in the near future will lead to an increase in house sale.

Banks and other financial institutions will be affected:

Banks will see both good and bad repercussions from demonetization. In the long run, though, it will be a favourable outcome. People are required to deposit their money in banks in accordance with government directives, which will boost the banks' liquidity in the near term. Banks can use this liquidity for long-term lending.

Banks are projected to expand the borrowing cycle by lending money at a cheaper interest rate as their liquidity improves. This will have an adverse effect on bank profits for the next two to three quarters, though. The lending book may never be seen. The demonetization procedure will lead to a rise in the number of bank branches.

Banks are able to borrow money at Repo and lend money at Base Rate, which lowers the lending rate. When the Repo Rate falls, the Base Rate follows suit, resulting in lower lending rates for banks with ample funds to lend [10].

Demonetization's impact on Ecommerce is largely negative, although there are some positives as well. In the first few weeks after demonetization, the gross merchandise value (GMV) of participants in the online retail business decreased by 40 to 50 percent. Things might stay gloomy until the end of March. Even high-end electronics like high-end smartphones are seeing a decline in popularity. Returns have increased by 50%. As a result, analysts believe that consumer mood will not recover rapidly. Even though digital payments saw a 100% increase in transactions, the industry is optimistic about its long-term prospects. In addition, supermarket and food delivery businesses are performing better since they sell necessities. Some companies witnessed a 25 percent increase in new client orders, compared to the normal 15-16 percent [11-15].

The tourist industry has been particularly hard damaged by the current financial crisis. Banks and ATMs are notoriously tough places to get cash from. It's a rough moment for the travel and hotel businesses.

November and December are the busiest months of the year for tourists. Business may be reduced by as much as 40% for tourist locations outside of major cities. The city's tourism industry might see a 10% drop. At airports and hotels, cash shortages are a major issue. Many access points to national monuments do not accept card payments. Cash Liquidity in India has been warned about by Western countries. Demonetization will have a favourable influence on digital transactions and other ways of payment, which the government wants to eliminate.

Alternative modes of payment will experience an increase in demand as the number of cash transactions declines. E-wallets, online banking, plastic money (debit and credit cards), UPI, EFTPOS, Net Banking Aadhar cards, and other digital transaction methods will all experience significant rises in demand in the near future. Finally, it should lead to the reinforcement of these systems and their corresponding infrastructures

CONCLUSION

In the long term, demonetization has both beneficial and bad effects, but the negative effects do not exceed the favourable ones. Pharma, FMCG, Education, Agriculture, Hospitals, Energy, and Telecommunications were not harmed by the demonetization. The long-term outlook for the banking and infrastructure sectors would benefit from this action.

For real estate, consumer durables, and high-end things in the near to medium term this would be bad news.There can be no doubt that the Modi government has taken a historic step by implementing demonetization, and this should be applauded by everyone. As a long-term strategy, this action by the government is a stepping stone to/for continued economic growth.

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