AN ANALYSIS ON THE OUTCOME OF DEMONETIZATION IN INDIA-OPPORTUNITIES AND CHALLENGES

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ABSTRACT

Prime Minister Narendra Modi on 8th November , 2016 called for demonetisation with the aim to remove black money from the country , prevent crimes and make cashless transactions . This had more of a negative impact on the country's economy , where the global economy was growing we say a decline in the growth rate of Indian economy , this demonetisation resulted in the lost of jobs and lakh and crore of money was lost . The agriculture sector was badly affected by the demonetisation where the whole business run on cash followed by small manufactures and even traders were affected . The demonetisation was followed by many terror attach in India , the motive was to stop terror funding , however the Demonetisation had a zero impact on terror funding and we see a rise in crimes like drug trafficking . Digital India and Digital Economy has been successful in some parts of the country , still a maximum rural area requires internet connectivity to start with the business of cashless transaction . people need to be educated on how to hand a bank account and the country needs to be made digitally educated , the informal sector has been badly affected and we have seen a decline in GDP growth over the years.

Keywords : Demonetisation, GDP , drug trafficking , Black money , cashless transaction , agriculture , global economy , Indian economy .

Introduction

Demonetisation can be delineated the amalgamation of De and Monetisation ,monetisation means increase the flow of cash in the economy where as Demonetisation mean calling off the currency from the economy or Bank or currency in the economy . Before we look at the impact of demonetisation , let's look at the history of demonetisation of India which started in January 1946 of 1000 and 10,000 rupee took place in 1954 , rupees 1000 , 5000 and 10, 000 were reintroduced , again in 1978 Government demonetised rupees 1000 , 5000 and 10 ,000 notes from economy . Prime Minister Narendra Modi , on 8th November , 2016 declared Demonetisation in the country and banned 500 and 1000 notes and introduced new 500 and 2000 notes , the government had brought in conditions for how many days you can withdraw the old notes and new rules as it would take time for the new notes to reach the market and even ATM modification were required due to change in the size of the notes . Demonetisation aim was to reduce the amount of black money present in India , remove of fake currency notes from market , contributing the money supply and prevention of crimes , drugs trafficking and terrorism as most of these deals were done in cash .the total currency circulation in India is 17.5 Lakh crore , the circulation of rupees 500 and 1000 is around 1.5 Lakh rupees that is 86% and black money is estimated to be rupees 3 Lakh crore worth assuming to be 20% .The cost of printing new notes of 500 rupees is 2.5 only and for 2000 is 3.2 only , a total cost will is 5000 crore where the net profit to Indian Government is rupee 2,95,000 crores . It is estimated that most of the transaction of gold/Diamonds happens through Black Money , demonetisation will bring a decline in the sale of gold followed by reduction of import of gold as most of it is done through foreign currency and better balance of payment situations . If , we talk about real estate , almost 50% amount is paid in cash in resale of property , if the cash business go down then we can expect real estate prices to go down and when we it will reduce and honest people can purchase as black money people have increased the cost of these estate , and when the money exchange through cash will reduce stamp duty collections and income tax would go up as people will have to declare that money . Corruption will also reduce as corrupted people always accept money in cash , less cash means less corruption , the existing bribe money paid in cash would become useless and big flow to corrupt officers , politicians and businessman will be of no use .. Many criminal activities like Drug Trafficking are done through black money, Hawala Transaction is done purely on cash where there will be no cash available its obvious that cases of contract murder , petty theft and prostitutions to reduce .

RESEARCH METHODOLOGY

For the purpose of this exploration , I have used a amalgamation of two of the archetypical social sciences research tools application –as they are authentic and brilliant method to assemble statistics from multiple appellant in an methodical and convenient way . Question were asked to the common youth , survey , interviews –consisting of several interrogation which were dispersed among representative of each contender group .

OBJECTIVE OF THE RESEARCH PAPER

The main areas of exploration in this paper incorporates

1.Demonetisation and GST in India

2. Reasons and affects of Demonetisation in India .

3.Negtive Impact of Demonetisation in India .

4.Challenges and reasons for the failure of demonetisation

LITERATURE REVIEW

Cashless Transaction will be a positive sight where people will use more credit and debit cards make online transfer , payment through Mobile Link PAYTM would go up , which will also serve better to the environmental and less tress to be cut to male cash and the component of Black money reduce. Government revenue will also increase with tax evasion decline , more banking transaction leads to better accounting and customs , excise , VAT ,GST to improve sustainability . Elections Malpractices , during elections candidate spent a huge amount on conducting elections and to gather vote , however with cashless transaction this electoral malpractice will reduce , there will be difficult to organize big events during elections , problems to bribe voters or pay them petty gifts , liquor and all resulting in corruption free elections and Democracy will be implemented in the true sense of the term .Demonetisation main motive was to eliminate black money stored in cash to a great extent . The biggest affect is on GDP which is related to government expenditure , government investment , consumer saving , consumer spending . It has impact on various sectors starting from agriculture to labour and different sectors , which has resulted in the slow growth of economy in India .Cashless transactions has made the system very transparent , the GST on each and every item has coasted the life of many people , especially the poor , the farmers suffered the most when demonetisation took place , most of them didn't have a bank account and run their whole business in cash , for them it cost their life

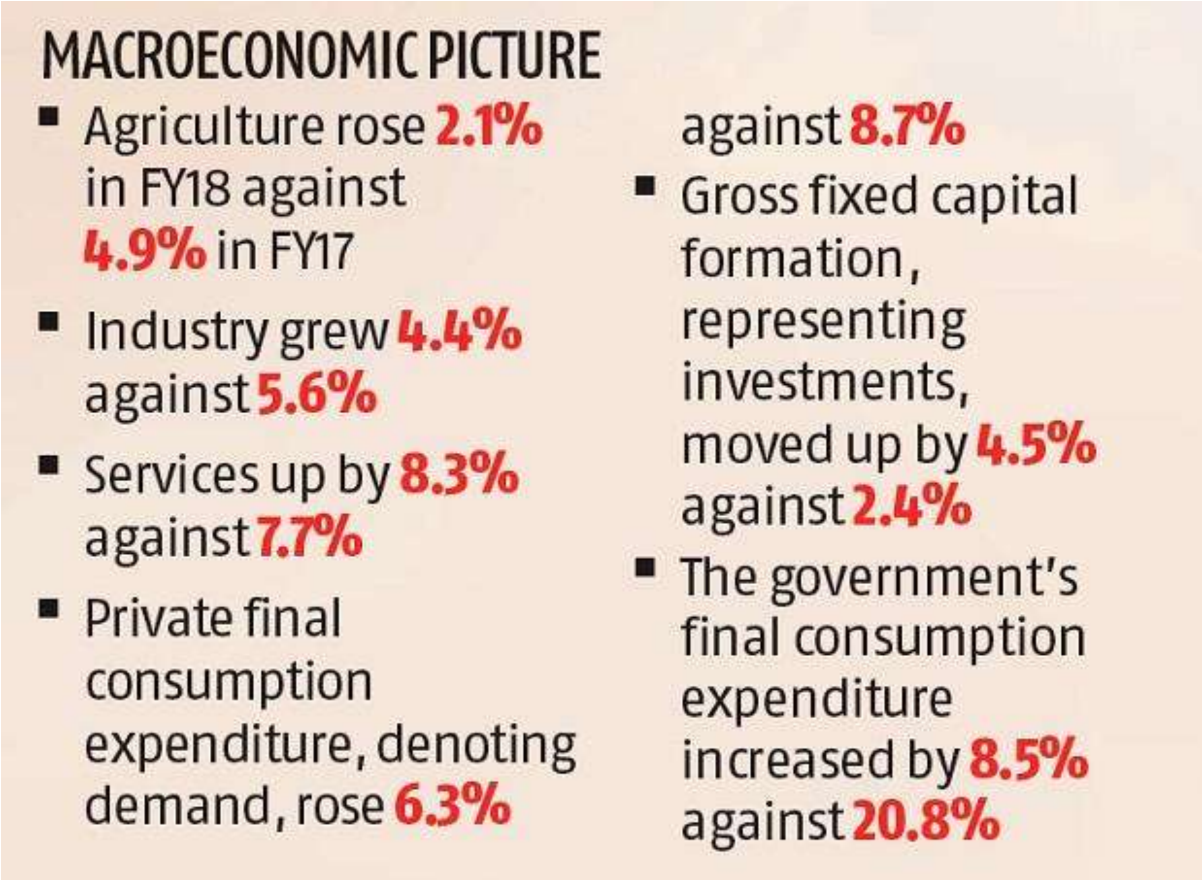
.Demonetisation and Goods and Services Tax(GST) has held back the economic growth of the country . The economic growth rate from 2012 to 2016 was growing at a faster rate . the growth of Indian economy fall with the idea of GST and demonetisation , where the global economy has been reaching its peak , the Indian economy is falling down . The 7% rate per year can be described as a potent growth, but not sufficient enough for people who are newly entering the job sector .In 2017 when the world was picking up , India went down , this shows that GST and demonetisation had given a hard blow to the economy . The county is having issues in the implementation of the GST and coping with Demonetisation . However it's been 5 years since demonetisation has taken place we don't see much affect on the Indian economy where money people have lost their jobs , GST has a negative impact on small scale manufacturers and trades , having both short term and long term affect on the wealthy .GST is the largest tax ameliorate in India with the notion of one nation , one market and one tax .

FINDINGS

After 2 years of demonetisation is the estimated and the RBI has said that 99.3 % of demonetised currency has returned back in the banks . In September 2017 , RBI said that 99% of the currency has come back from 2017 to 2018 the figure came to 99.3% . It was estimated that 30% of the cash in our country is black money .In fact SBI had told in December 2016 after a month of demonetisation that about 2.5 lacs crore cash out of 15.4 Lakh crore will not return to the bank , the people who have black money will not do the financial houses and return them whereby the people will compare their allowances with the unpaid taxes and create problem for themselves , they will either burn or throw into the water bodies . But nothing happened like that as 99% of money came back people might have found new methods to deposit the money into the bank and turn the black money into white .15.44 lac crore was he value of demonize currency and 15.31 lacs crore currency has come bank in the banks , it is considered that the rest of the money is black money .

However 3300 crore is kept in Nepal and Bhutan which the Indian Government is not able to get back , there are so much amount which is kept with the NRI's and they didn't come back to return , a lot of poor who couldn't return back . There are much in the contribution box of the temples where the temple authority have been appealing to the administration to take it but the government has not taken any action .All the measures and approaches taken to get the black money out , has not even been successful in getting out 0.1% of the black money It was believed that demonetisation will work a lot on the fake currency , but just after 3 to 4 days of demonetisation there were photos of fake notes of 2000 rupees , till June 2017 , more than 11 crore forgery currency was discovered , this indicates that there was no influence of demonetisation on forgery currency . It was said that demonetisation will have an impact on trepidation funding , 8 November demonetisation took its place and on 19th November terrorist attacked on the army in Assam , on 22nd November attack happened in Kashmir and 29th November at Nagrota , this show it had no impact on terror funding . Cashless economy was increased at that time , however with the coming of cash , we saw a reduction in cashless economy .There has been an increment of 14% in the direct levy assembly , however the same was in 2013 .

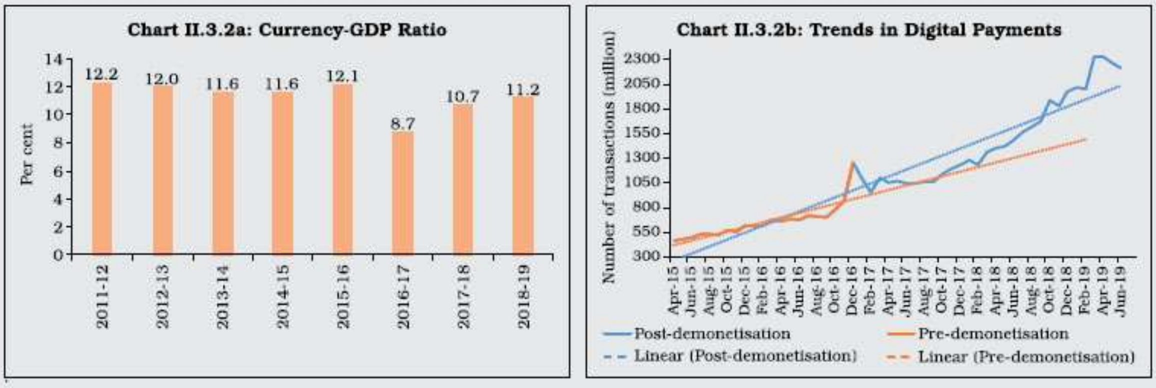
1.28 lakh crore was loss during the first 50 days of demonetisation , around 4 lakh people lost their jobs in the first 4 month of demonetisation , with a decrease of 2.2 % in GDP. 21.000 crore rupees was the price of printing new notes which resulted in the overall GDP loss , job loss , 1.28 crore loss and the cost of printing these notes , more than 150 people dead either by standing at the line outside for hours and some outside the hospital when the hospital stopped accepting cash .



MACROECONOMIC PICTURE

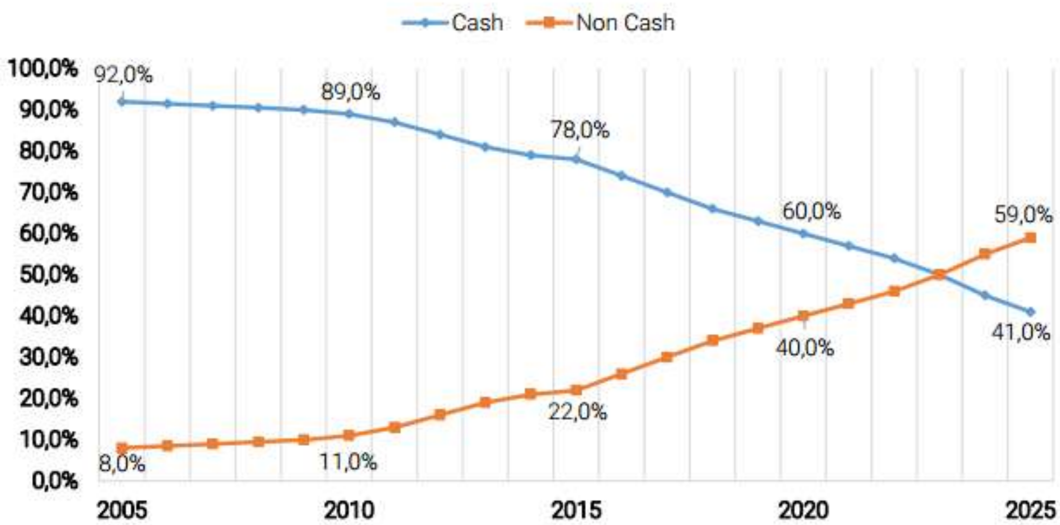
- Agriculture rose 2.1% in FY18 against 4.9% in FY17
- Industry grew 4.4% against 5.6%
- Services up by 8.3% against 7.7%
- Private final consumption expenditure, denoting demand, rose 6.3% against 8.7%
- Gross fixed capital formation, representing investments, moved up by 4.5% against 2.4%
- The government's final consumption expenditure increased by 8.5% against 20.8%

The GDP numbers for the July –September quarter come after 6 consecutive quarters of falling GDP growth rate from 8.1 % to 4.5 % GDP rate started decreasing .Informal sector and people employed in this sector has been badly affected by this , nearly 81% of the people are employed in this sector ,as they deal mainly in cash , like purchasing raw materials , giving wages to the employees and since the cash was squeezed form the system , they were badly affected , we saw a rise in NMGRE especially in the states of Bihar , Rajasthan and Maharashtra with demonetisation in place many rural people who had gone to urban areas for their jobs returned , as the informal sector got affected the supply of goods and services also reduced as the informal sector contributes the most to the Indian economy , but the demand remained same , hence there was profit made in the formal sector . , there was short term benefit for the formal economy . However a long run affect on the formal economy the income of small business reduced and people lost their jobs and the demand also reduced .The consumer spending in 2017-18 reduced by 1.7 % for the first time in four decades .



Source: RBI.

It is a big improvement for credit cards India is a unbanked country , even today a good sum of people don't have a bank account especially the vulnerable section , many regions still don't have Internet connectivity for them digital economy is not easy and this has an ample effect on the small traders . There has been an increase in the use of online payment for transaction , with the prime minister idea to make India , Digital India and empower its people , the country is moving towards digital economy and has introduced many digital payment apps making banking easier and simple for people . Apps like UPI , Paytm , gpay , Phonepe is being used across the urban sector of India with maximum people moving towards online transactions , from some shops , to cafes and school fee and other universities all the payments are being accepted online . The COVID -19 Pandemic has seen an increase in the use of digital payment .Digital Payment has reached 35.6 billion Indian rupees as per December 2021 .



CHALLENGES

We can't ignore the fact that majority of our population live in the rural sector and India is primary depended on agriculture for its economy growth , in fact most of the products are exported and this rural India contributes to the Foreign trade . Demonetisation had the greatest impact on the agricultural sector , as 99% of the business is carried out through cashes from purchasing raw materials to getting wage , this send demonetisation made the life of people miserable , half of them didn't have money to fed their family and majority lost their jobs . On the other hand India idea of a cashless transaction , first of all many people till do not have a bank account in the rural area , same applies for the urban area as majority of the people live in the slum areas.

Moving towards a digital economy first requires promoting of digital literacy to each and every person , along with providing Internet facilitates to all the villages in India , many people still don't have access to electricity and the infrastructure for internet connectivity remains a story . India first need to educate their people on banking system and then teach them how to operate a bank account followed by digital payment system , only 20 % rural villages have net connectivity , the rest rural sector is still left which comprise more than half of the population in India .

CONCLUSION

Demonetisation and GST has its positive and negative impact on the society , however there are more negative impact than positive , it made the life of rural people miserable with the sudden declare . The sector which has been worst affected is the agriculture which is the cornerstone of Indian economy .However they have been unsuccessful in eliminating black money from the country , the rate of corruption has increased and we see a rise in the drug trafficking happening at a high rate across the borders and in the states and the business is well going on in cash . the cashless transaction has been successful to some extent , the Indian economy growth as declined compared to the global economy and our GDP rate has also reduced .

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