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EDITOR'S NOTE

It is with deep satisfaction that I write this Editor's Note to the exclusive journal for the National Seminar on Demonetization – Prospects and Challenges jointly organised by the Department of Economics and Centre for Research in Economics and Department of Commerce held in our college on 6th January 2017.

The Post Graduate Department of Economics has fine-tuned its activities by conducting Conferences, Workshops, Seminars and submits erudite publications in reputed journals at National and International level.

I am happy to note that this is the first time, the Department of Economics has brought out the exclusive International Journal consisting of papers presented in the National Seminar.

Department of Economics is a cradle of excellence and commitment, moulding young minds and shaping our youth for a bright tomorrow. Research and Teaching are the two primary actions through which we fulfill our mission and objectives.

The Department of Economics continues a tradition of bringing together the Researchers, Academics, and Professionals from various institutions in different parts of our Country. The National Seminar, particularly encourages the interaction of research scholars and developing academics to present and discuss the issues pertaining to demonetization.

Knowing well the paramount importance of this Seminar, the team has carefully analysed and synthesized all materials and meticulously planned the journal, so that readers can easily go through it and draw pleasure and benefit from its contents. I trust that the collections of research articles will be an impetus to stimulate further study and research in all socially relevant issues.

Best wishes.

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Academic Excellence in research is continued promoting in research support for young Scholars. Multidisciplinary of research is motivating all aspects of encounters across disciplines and research fields in an multidisciplinary views, by assembling research groups and consequently projects, supporting publications with this inclination and organizing programmes. Internationalization of research work is the unit seeks to develop its scholarly profile in research through quality of publications. And visibility of research is creating sustainable platforms for research and publication, such as series of Books; motivating dissemination of research results for people and society

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DEMONETIZATION AND ITS DISCONTENTS

Dr M.Maria John Kennedy

Associate Professor of Economics, Arul Anandar College Karumathur, Madurai

Dr V.Veluchamy

Associate Professor of Economics, M.S.S. Wakf Board College, K.K. Nagar, Madurai

Abstract

Demonetization is considered as an extension of make in India programme. Modi has given three important reasons for demonetization. They are checking Black money, counterfeit noted and terrorism financing. Modi's demonetization initiative caused a sudden breakdown in India's commercial ecosystem. Trade across all facets of the economy was disrupted, and cash-centric sectors like agriculture, fishing, and the voluminous informal market were virtually shutdown, with many businesses and livelihoods going under completely – not to mention the economic impact of millions of people standing in line for hours to exchange or deposit canceled banknotes rather than working or doing business.

Keywords: *Demonetization, Informal Market, Make – in – India.*

Introduction

Prime Minister Narendra Modi's call to 'Make in India' has caught the imagination of global investors all over the world. His grand vision of turning India in to a global manufacturing hub, along with the promise to curb red tape, develop key infrastructure and ease clearance and other factors which have kept India at the bottom end of the global 'ease of doing business' rankings, have served to rekindle hope that the promise that India showed in the initial years of the millennium will still be fulfilled. The 'Make in India' campaign is in-fact understanding marketing. There is almost unanimity among the politicians and policy makers that manufacturing growth is the ultimate remedy for the future generation, for a better life. In this scenario, muttering about climate change and environment impact is dubbed as negativist canards. But, a close look about the issue gives confusing signal regarding growth and employment. To the quote the words of the Modi (at Madison square garden America) if, you want human resources and low cost production come to India. Back home, at the investors meet in Indore. Modi said, 'creating job opportunities for youth was the biggest goal to the government'.

But it needs to show that the spectacular surge in growth during UPA II period produced double digit growth without a corresponding upsurge in jobs. Infact, millions of jobs were lost in sectors as diverse as plantation to textile as the economy shifted in demand-supply topography. Demonetization is considered as an extension of make in India programme. Modi has given three important reasons

for demonetization. They are checking Black money, counterfeit noted and terrorism financing

Modi's demonetization initiative caused a sudden breakdown in India's commercial ecosystem. Trade across all facets of the economy was disrupted, and cash-centric sectors like agriculture, fishing, and the voluminous informal market were virtually shutdown, with many businesses and livelihoods going under completely – not to mention the economic impact of millions of people standing in line for hours to exchange or deposit canceled banknotes rather than working or doing business.

"The unbanked and informal economy is hard hit," explained Monishankar Prasad, the New Delhi-based author and editor for Alochonaa, an Australian current events publication. "The poor do not have the access to structural and cultural resources to adapt to shock doctrine economics. The poor were taken totally off guard and the banking infrastructure in the hinterland is rather limited. The tech class has poor exposure to critical social theory in order to understand the impact on the ground. There is an empathy deficit."

On 8 November 2016, the government of India announced the demonetization of all Rs.500 and Rs.1,000 bank notes of the mahatma Gandhi Series as legal tender. The government claimed that the action would curtail the shadow economy and crack down on the use of illicit and counterfeit cash to fund illegal activity and terrorism. The sudden nature of the announcement and the prolonged cash shortages in the weeks that followed created significant disruption throughout the economy, threatening economic output. The move was heavily

criticized as poorly planned and unfair and was met with protests, litigation, and strikes.

India has done this before. In 1946, all 1,000 and 10,000 rupee notes were recalled. In 1978, 1,000, 5,000, and 10,000 rupee notes were demonetized. But its impact on the society was minimal. Prime Minister of India Narandra Modi announced the demonetization in an unscheduled live televised address at 08 p.m Indian standard time on 8 November 2016. In the announcement, Modi declared that use of all Rs.500 and Rs.1,000 banknotes of the Mahatma Gandhi Series would be invalid past midnight, and announced the issuance of new Rs.500 and Rs.2000 banknotes of the Mahatma Gandhi New Series in exchange for the old banknotes.

In the days following the demonetization, the country faced severe cash shortages with severe detrimental effects on a number of small businesses, agriculture, and transportation. People seeking to exchange their notes had to stand in lengthy queues, and several deaths were linked to the inconveniences caused due to the rush to exchange cash. Also, following the announcement, the BSE SENSEX and NIFTY 50 stock indices fell over 6 percent in the day following the announcement.

Initially, the move received support from several bankers as well as from some international commentators. It was heavily criticized by members of the opposition parties, leading to debates in both houses of parliament and triggering organized protests against the government in several places across India. The move is considered to have reduced the country's GDP and Industrial production. As the cash shortages grew in the weeks following the move, the demonetization was heavily criticized by prominent economists and by world media.

A closer analysis of the demonetization effect shows its monumental failure. More than 15 lakhs crores of money or 97 percent of the demonetized notes have entered the banking system as deposits. Note even a single case of fake currency is reported in this period.

Terrorist have so many ways of financing and it has not received strong argument among the economists.

GDP has already declined by more than 1 percent and the centre for monitoring Indian economy expects less than 5 percent growth rate for the coming 5 years. So the government's long term gain is also questionable. The government's slogan of short term pains and long term gain has turned into all pain and no gain.

The major issue in demonetization process is the role of RBI in the monetary system. By changing its own rules for more than 100 times within 50 days has eroded its creditability as the apex banking system. Instead of protecting its identity and autonomy, it has acted as an agent of finance ministry. Three former RBI governors have launched strong criticism over the functioning of RBI rollers million dollar question.

To cover its apparent failure, the government has suddenly shifted its goal post from demonetization to cash less economy. The public is already facing cash less economy and in this back drop of introducing digital transaction won't solve its problems, while digitalization is a welcome phenomenon, and it evitable in a mature capitalist economy, forcing it won't yield the desired results. The basic problem is that the government has miserably failed to in future confidence in the minds of the people while introducing path breaking announcements. The government has to .rectify the emerging problems due to demonetization. As Keynes rightly pointed out 'In the long run we are all dead' so the government should try to find solution to short run problems, so that the economy may achieve better results in the future.

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DEMONETIZATION IN INDIA- PROSPECTS AND CHALLENGES: EFFECTS OF DEMONETIZATION

Dr. S. Thenathayalan

*Associate Professor, Department of Economics & Centre for Research in Economics,
The Madura College (Autonomous), Madurai*

S. T. Jacob Ponraj

*FDP Research Scholar Department of Economics & Centre for Research in Economics,
The Madura College (Autonomous), Madurai*

Abstract

On November 6th of 2016, Prime Minister of India announced withdrawing of high denomination currencies of Rs 500 and 1000. The purpose of the move is to trace black money or unaccounted money in the society this is the second attempt after Independence, also similar effort was taken during the British period too. Making the currencies out of circulation would be a temporary measure. This paper is an attempt to analyze the effect of demonetization in Indian economy.

Keyword: Demonetization, Past History, Effects.

Introduction

Demonetization is nothing but a process of taking out of circulation of high denomination currency of a country. It is one of the monetary methods to curb the black money of an economy. That is what the economist is suggested. This is second attempt to demonetize the high valued notes after 1978. During 1978 (The regime of Janatha Party – Headed by former Prime Minister Mr. Morarji Desai) Rs.100, 5000 & 10000 notes were demonetized to make an attack on black money. At present the Government of India headed by Mr. Narendra Modi announced demonetization of high valued currency notes in the market that is of Rs.500 and 1000. This effectively resulted in invalidation of 86 percent of currency notes in circulation. This paper is an attempt to study the history and the effect of demonetization in India.

Past History

In the past many countries have attempted to demonetizing their currencies of higher values. Some were successful and some were not successful, but all of them were done when their economies were having major problems like Hyper-Inflation, Germany implement it in the year 1920. In the year 1991, Mikhail Gorbachev government banned the currency notes of Ruble 50 and 100 in Soviet Union to end black money in the country. But this decision of Mr. Gorbachev took a very wrong turn and people started doubting government and because of this he also faced the problem of change the government.

Ghana

During the year 1982 government of Ghana demonetize the currency of Cedi 50 to control black money in the country.

British

When they form Euro Dollar / European Union also demonetize the currency. This is only country have got successful implementation of the move.

Congo

Congo was also implemented similar effort during 1990's it where they did not get a better result. Also countries like Myanmar in 1987, Nigeria in 1984, North Korea in 2014 were demonetized their respective currencies.

Theory

Monetary Authority / Government of a country may demonetize the currency note, when prices rise rapidly like the running of a horse at a rate of speed of 10 to 20 percent per annum or even more, it is usually called runaway or galloping inflation, Hyper-inflation is a situation when the rate of inflation becomes immeasurable and absolutely uncontrollable. Prices may rise many times in every day. Such a situation brings a total collapse of the monetary system, because of the continuous fall in the purchasing power of money.

This is the first time that a perfectly healthy economy has attempted it and that too to target black money. The aim behind the government's action was to combat tax cheating, counterfeiting and corruption. Eliminating large

denominations makes it harder to hide large amount of cash. Corruption, black money and terrorism are some of the factors holding us back in the race towards development.

Effects of Demonetization

Demonetization of a currency of an economy has its own effects on different sectors. The following are some of the effects realized in Indian economy after November 6th of 2016.

On Consumer Durables

Low and Middle Income Group of people always arrange their plan of expenditure based on ready currency than any other modern way of payment. Hence this sector might be affected by demonetization. This sector is down by almost 11.7 percent since the announcement.

On Real Estate

Real Estate activities are driven by the black money. Therefore this is the sector that has probably the worst hit of all the sectors. Many real estate properties have a big black money component, they are expected to go through at least a 20 to 30 percent correction and hence for the foreseeable two quarters at least. Therefore this sector may affect severely before it get normal.

On Infrastructure

This sector is driven by massive investments from government as well as loans from commercial banks. The positive effects of demonetization is to increase the liquidity in the banking system and also increase the funds that the government has for spending on infrastructure and welfare schemes etc,. Therefore this sector is an obvious beneficiary of demonetization.

On Information Technology

This sector has been largely unaffected by the demonetization process. Since this sector is export oriented and hence relatively better positioned to handle shocks caused by demonetization in the Indian Economy. Moreover it is the sector is largely depends on cashless transaction for her day to day and even for voluminous transaction. That is why IT sector is actually doing better than from what it was on November 8th of 2016.

On Automobile Industry

At present it is one of the huge sector in Indian Economy, provides employment, income, investment to the total, contribute in export etc,. After the announcement of demonetization of Rs 500 and Rs.1000 currencies, this sector is affected very much. This is an evident that December sales figures released by most of the firms saw a fall in sales compared to the previous year especially the rural markets taking the worst hit.

Effects on Two Wheelers Segment

Bajaj was experienced by 22 percent fall in sales during December 2016, Hero Moto Crop Ltd 33.91 percent, TVS Motor Company 8.47 percent, India Yamaha Motor 28 percent.

Effects on Four Wheeler Segment

Maruthi Suzuki by 1.0 percent Hyundai 4.3 percent, Mahindra & Mahindra b 4 percent, Tata Motors (Passenger Vehicles) 35 percent.

Effects on Commercial Vehicles Segment

Ashok Leyland was by 12 percent and Tata Motor by 9 percent.

On Banking Functions

The biggest beneficiaries of the demonetization process are BANKS. Lot of people are depositing cash in the banks which will increase the liquidity of banks. Therefore the net interest income and net earnings of the banks will increase.

On General Public and Small Merchants

Public and small merchant are the worst sufferers due to demonetization. Vegetables, Fruits, Flowers and meet markets are looking deserted without customers. Sunday meet markets were waiting for customers, who rather not spend their precious Rs.100 note. Fruit traders invested lakh of rupees to buy fruits from gardens, and there is no business as the customers are giving Rs.2000 note. The traders are losing sales as they do not have change for the higher denomination.

Will It Work? Demonetization process is undertaken to check the black money, counterfeit, terrorism and even to check the corruption. Prof. Rajesh Chakrabarti pointed that, there are about 6 percent of unaccounted wealth is held in cash. He also says "This intervention is a one-time draining of this current stock of black money but unless the root causes of corruption are removed. Otherwise, it is sort of like a dialysis, a short term cleaning up than a solution of the problem, than it needs to be repeated periodically".

Findings of the Study

- Withdrawing of high denomination of currency was announced in the night of 6th November 2016, it affects the poor vulnerable sections of the society.
- MSME Enterprises where affected severely.
- Agricultural sector especially small and marginal farmers where affected.

Conclusion

It can be summarize the effect of demonetization on the overall economy as follows. In the short run, GDP will down for at least one or two quarters before recovering. A lot of money will be converted to white and deposited into the banks, which will in turn help in the NPA problem that banks are facing. In the long run, reducing of black money in the economy in future should bring people in the tax net and hence lower taxes as well as interest rates, which will good to overall economy. Therefore withdraw of high denomination currencies from the circulation may be short term solution. Most of the economists agree though,

but this move is not sufficient and several other reforms like tax reforms, real estate reforms etc., need to be undertaken to curb the black money generation in the future.

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DEMONETIZATION IN INDIA: A THEORETICAL ANALYSIS

Dr.S.Theenathayalan

*Associate Professor & Head, Department of Economics & Centre for Research in Economics,
The Madura College, Madurai-626011.*

S.Murugan

Assistant Professor, PG & Research Department of Economics, Thiagarajar College, Madurai-626009

Abstract

The Government of India declared on 8th November 2016 that the five hundred and one thousand rupee notes will no longer be legal tender from midnight, of the same day. The RBI will issue Two thousand rupee notes and new notes of Five hundred rupees which will be placed in circulation from 10th November 2016. The process of removing the older notes from circulation continued for nearly one year. The deadline was extended till December 2015 and those notes continued to remain legal tender till November 8. This was not exactly demonetization. The demonetization measure may be beneficial in long run to curb parallel economy and corruption. But in the short run gives remarkable adverse impact on the whole economy in India.

Keywords: Legal tender, Circulation, Parallel Economy and Corruption.

Introduction

Demonetisation is the mechanism by which the government states to withdraw the money which is current legal tender. The government being sovereign can take such decision. The effect of this announcement is that the currency notes in circulation will now cease to be valid tender and can only be exchanged at the banks. In an important move, the Government of India declared on 8th November 2016 that the five hundred and one thousand rupee notes will no longer be legal tender from midnight, of the same day. The RBI will issue Two thousand rupee notes and new notes of Five hundred rupees which will be placed in circulation from 10th November 2016. Notes of one hundred, fifty, twenty, ten, five, two and one rupee will remain legal tender and will remain unaffected by this decision. This measure has been taken by the PM in an attempt to address the resolve against corruption, black money and counterfeit notes. This move is expected to cleanse the formal economic system and discard black money from the same. The first demonetization took place in 1946 and Rs 1000 and Rs.10,000 notes were demonetized. Later in 1978, Rs. 1000, Rs. 5000 and Rs. 10,000 were demonetized. This is the third time demonetization has taken place in 2016. RBI earlier removed pre-2005 notes of all denominations from circulation as they have fewer security features compared with subsequent notes. The process of removing the older notes from circulation continued for nearly one year. The deadline was extended till December 2015 and those

notes continued to remain legal tender till November 8. This was not exactly demonetisation but removing from circulation and has now subsumed into the present demonetisation. This paper highlights the effects of demo and policy suggestion to adopt the measure effectively.

Effect on Parallel Economy

The removal of RS.500 and RS.1000 notes and replacement of the same with new RS 500 and 2000 Rupee Notes is expected to

- Remove black money from the economy as they will be blocked since the owners will not be in a position to deposit the same in the banks.
- Possibility to identify the tax evaders and tax evasions
- Temporarily stall the circulation of large volume of counterfeit currency and
- Curb the funding for anti-social elements like smuggling, terrorism, espionage, etc.

Effect on Money Supply and Rate Of Interest

- With the older 500 and 1000 Rupees notes being scrapped, until the new 500 and 2000 Rupees notes get widely circulated in the market, money supply is expected to reduce in the short run.
- To the extent that black money (which is not counterfeit) does not re-enter the system, reserve money and hence money supply will decrease permanently. However gradually as the new notes get circulated in the market and the mismatch gets corrected, money supply will pick up.

Effect on Demand

The overall demand is expected to be affected to an extent. The demand in following areas is to be impacted particularly:

- Real Estate and Property purchases are negatively affected.
- Gold and luxury goods trade activity has adverse impact.
- Demand of Automobiles (only to a certain limit) also contractive in nature in short term.

All these mentioned sectors are expected to face certain moderation in demand from the consumer side, owing to the significant amount of cash transactions involved in these sectors.

Effect on Prices

Price level is expected to be lowered due to moderation from demand side. This demand driven fall in prices could be understood as follows:

✓ **Consumer goods:** Prices are expected to fall only marginally due to moderation in demand as use of cards and cheques would compensate for some purchases.

The nature, frequency and amounts of the commercial transactions involved with these sections of the economy necessitate cash transactions on more frequent basis. Thus, these segments are expected to have the most significant impact post this demonetization process and the introduction of new notes in circulation.

Effect on GDP

The GDP formation could be impacted by this measure, with reduction in the consumption demand. However with the recent rise in festival demand is expected to offset this fall in overall impact. Moreover, this expected impact on GDP may not be significant as some of this demand will only be deferred and re-enter the stream once the cash situation becomes normal.

Effect on Banks

As directed by the Government, the 500 and 1000 Rupee notes which now cease to be legal tender are to be deposited or exchanged in banks (subject to certain limits). This will automatically lead to more amounts being deposited in Savings and Current Account of commercial banks. This in turn will enhance the liquidity position of the banks, which can be utilized further for lending purposes. However, to the extent that households have held on to these funds for emergency purposes, there would be withdrawals at the second stage.

✓ **Real Estate and Property:** Prices in this sector are largely expected to fall, especially for sales of properties where major part of the transaction is cash based, rather than based on banks transfer or cheque transactions. In the medium term, however the prices in this sector could regain some levels as developers rebalance their prices (probably charging more on cheque payment).

Effect on Various Economic Entities

With cash transaction lowering in the short run, until the new notes are spread widely into circulation, certain sections of the society could face short term disruptions in facilitation of their transactions. These sections are:

- Agriculture and related sector
- Small traders
- SME
- Services Sector
- Households
- Political Parties
- Professionals like doctor, carpenter, utility service providers, etc.
- Retail outlets

Effect on Online Transactions and Alternative Modes of Payment

With cash transactions facing a reduction, alternative forms of payment will see a surge in demand. Digital transaction systems, E wallets and apps, online transactions using E banking, usage of Plastic money (Debit and Credit Cards), etc. will definitely see substantial increase in demand. This should eventually lead to strengthening of such systems and the infrastructure required.

Suggestions

- Proper idea and implementation needed with regard to Demonetisation.
- Facilitation need in rural areas.
- Make the people to have bank accounts.
- Online transaction and digital transaction should be educated to people.
- Financial sector should be strengthening in rural areas.
- Regulation should be strengthened in sales and sales tax.

Conclusion

The sudden announcement of demonetization negatively affected particularly the common men, small

scale traders, pensioners, farmers, daily and weekly wage earners, small and medium enterprises etc. The demonetization measure may be beneficial in long run to curb parallel economy and corruption. But in the short run gives remarkable adverse impact on the whole economy in India. Times may be taken to solve and regularize the adverse impact of demonetization in Indian economy.

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DEMONETISATION IMPACT: WILL IT HELP THE ECONOMY IN REDUCING UNACCOUNTED MONEY?

Dr. (Mrs.) W.Thangamani

Professor of Economics, National Defence Academy, Pune

Abstract

Demonetization refers to withdrawal of a particular form of currency from circulation. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be removed and substituted with a new currency unit. The currency was demonetized first time in 1946 and second time in 1978. On Nov 2016, the currency was demonetized a third time by the present Modi government. This is the bold step taken by the government for the betterment of the economy by reducing unaccounted money and utilise it for the development of the economy. This paper attempts to analyse the impact of demonetisation in reducing black money and its illegal use in the economy.

Keywords: *Demonetization, Black Money, Counterfeit Currency, Corruption.*

Introduction

The demonetisation effort being led by PM Modi in India is the idea that Rs.500 and Rs.1000 notes should no longer be legal tender, to be replaced by other notes of different designs and denominations. Money can take form of cash, real estate, gold foreign exchange etc. The only question making it black or white is "Have the requisite taxes been paid?" If taxes are not paid then it becomes black money. In order to hide this black money it is invested in 'benami' transactions, off shore accounts, gold, real, estate etc so cash is a very small part of black money. It is impractical to hoard it all in cash.

Objectives of the study

1. To analyse the factors responsible for implementing demonetisation.
2. To find out the effect of black money in illegal activities.
3. To find out the problems and prospects of demonetisation.

Methodology

The paper is based on the secondary data. The secondary data was collected from various published sources like reports, magazines, journals, newspapers etc.

Review of literature

Charan Singh (2016), RBI chair professor, IIM Bangalore, discussed about the mixed results of economic implications of demonetisation. According to him, it would inspire confidence of international community that India is

serious about its commitment to fight corruption and enhance India's ranking in ease of doing business as well as in various global indices of corruption. However the ultimate pain in terms of non availability of required currency notes if not corrected soon, may reflect in reduction of output in agriculture, which may spill over to industry and services.

Dr. Manmohan Singh, former Prime Minister of India contended that this measure has thrown the lives of millions of poor people in disarray as cash is the bedrock of lives of these people. This brazen policy measure has neither tackled the stock of black money nor has it stemmed the flow of it. The policy can act as a negative shock to the economy also.

Why only 500 and 1000 rupee notes were banned?

Most of the black money is saved in the form of Rs. 500 and Rs.1000 notes only. The total number of bank notes in circulation rose by 40% between 2011 and 2016; the Rs. 500 and Rs.1000 bank notes increased by 76% and 109% respectively in this period owing to forgery. This forged cash was then used to fund terrorist activities against India. As a result, the decision to eliminate the notes had been taken.

Black money and its causes

There is no uniform definition of black money in the literature or economic theory. In fact, several terms with similar connotations have been in vogue, including 'unaccounted income', 'black income', 'dirty money', 'black wealth', 'underground wealth', 'black economy', 'parallel economy', 'shadow economy', and 'underground' or

'unofficial' economy. 'Black money' can be defined as assets or resources that have neither been reported to the public authorities at the time of their generation nor disclosed at any point of time during their possession. Almost every sector in our country generates and uses black money for its survival in the market, society etc. It includes Real estate, financial market, bullion & jewellery market, non-profit organisations, external trade and so on. Apart from this, in India black money persists due to the existence of Demonstration Effect i.e. the way to live a life in terms of others point of view or we say live a life by looking at others livelihood. People of India are very much affected by the lifestyles of other people of the society who are maintaining considerable high status, and in turn want to be like them. For this, they want to generate money by any means. Therefore to fulfil these desires or to maintain their status in society they force themselves to generate and use black money.

Corruption in India is a major issue that adversely affects its economy. In 2014 India ranked 85th out of 175 countries in Transparency International's Corruption Perceptions Index, compared to its neighbours Bhutan (30th), Bangladesh (145th), Myanmar (156th), China (100th), Nepal (126th), Pakistan (126th) and Sri Lanka (85th). According to Report published by SWISS NATIONAL BANK estimates total deposits as below: From this analysis it is clear that India has a Top Position in case of black money deposit

Less Tax for the Government

Many times, the Indian Government has failed to collect the estimated amount of tax from the people of our country and for this, credit has to go to the black money driven underground economy. Recently, a report was submitted to the Finance Ministry of India that divides the spread of black money in different sectors like real estate, mining, telecom etc. The study, headed by NIPFP chief P.Kavita Rao, explains how illicit wealth is likely to exceed 10% of GDP.

Uncontrollable Inflation

When black money is out in the market, the amount of money in the system is higher than the Government expects. This causes the prices of commodities to increase to a level beyond normal. This is a direct result of people having more money offering more money on specific items. Even if the Government tries to control the credit flow in the market by taking necessary measures, the amount of

black money present upsets the move, resulting in some sort of pressure on the economy

Impact on Growth by Moving Investments on Gold, Stones and Jewellery

People who are looking to turn black money into white money are largely investing in precious metals like Gold and other jewelry. There are people who believe that almost 70% of the total gold investment in our country is black money. One reason for people to invest in gold is that it is hard to trace. People in black market may buy gold bars, coins, jewelries etc. because one can buy gold easily and can be converted back to money anytime. This flow of underground money has caused Indian economy to stall on its growth. It is estimated that if all the money in the underground economy could be diverted to our main economy, our economy would grow by more than thrice in no time.

Corruption

While corruption creates black money in the economy, it can also be a result of the growing underground market. People with black money are able to bribe the administrators and politicians to get what they want. By doing this, they are able to get what they want and others are pushed down the stack.

Inflated Real Estate

When people with deep pockets are ready to pay more for a piece of land, the price of surrounding land also tends to increase; thus artificially inflating the prices of an entire area. Generally, people involved in black money market are always ready to pay more for a piece of land as this helps in converting their colored money to legal

Encourages Anti-Social Activity

It is no doubt that black money is a curse to any country. Black money is always promoting anti-social activities in the society. Bribery, mentioned earlier, is only one example. The anti-social effects of black money include activities like terrorism, a huge threat already to our country

There is no doubt that existence of black money has a significant impact on social, economic and political levels of our lives which has a significant effect on the institutions of governance and conduct of public policy in the country.

So we can't say that India is a poor nation. In fact, India is amongst the Richest Nations if Stashed Black

Money is brought back & converted to White Money and fresh generation of Black Money is put to an end.

Effects of Demonetisation

Demonetisation is a radical monetary step in which a currency unit's status as a legal tender is declared invalid. This is usually done whenever there is a change of national currency, replacing the old unit with a new one. Such a step, for example, was taken when the European Monetary Union nations decided to adopt Euro as their currency. However, the old currencies were allowed to convert into Euros for a period of time in order to ensure a smooth transition through demonetisation. In India's case, the move has been taken to curb the menace of black money and fake notes by reducing the amount of cash available in the system. It is also interesting to note that this was not the first time the Government of India has gone for the demonetisation of high-value currency. It was first implemented in 1946 when the Reserve Bank of India demonetised the then circulated Rs 1,000 and Rs 10,000 notes. The government then introduced higher denomination banknotes in Rs 1000, Rs 5000 and Rs 10000 in a fresh avatar eight years later in 1954 before the Morarji Desai government demonetised these notes in 1978. In January 1978, the Indian government demonetised Rs 1,000, Rs 5,000 and Rs 10,000 notes which was quite substantial at that point of time. The move was enacted under the High Denomination Bank Note (Demonetisation) Act, 1978. Under the law all "high denomination bank notes" ceased to be legal tender after January 16, 1978. People who possessed these notes were given till January 24 the same year — a week's time — to exchange any high denomination bank notes. The main difference between then and now is that currency of higher denomination was barely in circulation, unlike the Rs 500 and Rs 1000 note today.

The main objectives were stated as follows eliminating fake currency; inflicting losses on those with black money; and disrupting terror and criminal activities. Later, new objectives were tacked on: enabling growth in bank credit, turning India into a cashless economy.

Disbursement Rate Microfinance Institutes' slow down

Micro finance institutions (MFIs) are important institutes which provide financial assistance to micro businesses. Such MFIs have seen their disbursement rate slowing after the government's decision demonetization of the notes of Rs 500 and Rs 1,000. The MFIs have acknowledged that the move may result in a delay in

collection of instalments from the clients in the near future. Demonetization and unavailability of cash can also have an impact on disbursement especially cash disbursement.

Effect on Micro Businesses

Indian Micro Small and Medium Enterprises (MSME) sector contributes considerable share in India's GDP. But amongst all the three, medium sized enterprises have share of around one per cent and they generally use online mode for their payment and receipts. But Small and Micro, especially micro businesses faced lot of problems as most of the transactions take place on cash basis, because many people are not that educated and tech-savvy. So the move demonetization has hampered micro businesses in a bad manner resulting into slowdown in micro enterprise sector.

E-wallet firms could gain good business

A digital wallet is an electronic device which allows an individual to make electronic commerce transactions like payment of bills or online bookings etc. An individual's bank account can also be linked to the digital wallet. The examples of wallet in India are- Paytm, PayU India, MobiKwik, and Freecharge and so on. Such E-wallets are expected to be the biggest beneficiaries of the decision of demonetization taken by central government.

Conclusion

Demonetization though it has created some positive and some negative impacts on different sectors but in long run it definitely will have positive impact in controlling black money and fake money moreover moving towards a less cash economy. The change of currency notes and resultant cash crunch in the system has led to a new opportunity for the country i.e. to move towards a cashless or less cash society in the medium to long run. Hon'ble Prime Minister, in his "Mann ki Baat" address to the nation has emphasized the need to use alternate methods of payments without relying heavily on cash. While India has come a long way from introduction of electronic funds transfer, the newer forms of payment have been developed in the recent years which hold significant potential to move towards a less cash economy. These include (i) Unified Payments Interface (UPI) which enables a person to transfer funds to any other person registered on UPI through mobile phone connected to internet; (ii) Digital wallets, such as SBI Buddy wherein money can be loaded to your mobile wallets (e-batua) and transferred to any other person using mobile numbers or bank details; (iii) Pre-paid, Debit or Credit Cards which can be used at

ATMs, Point of Sales (PoS) Machines by swiping the cards; (iv) Aadhaar Enabled Payment Systems (AEPS) wherein funds can be transferred using Aadhaar numbers seeding with bank accounts; and (v) Unstructured Supplementary Service Data (USSD) wherein funds can be transferred from mobile phones without requiring access to internet connection by dialing *99#. There is a need to spread widespread knowledge and allay the fears amongst the public to use these facilities. Government of India has already initiated a major drive for sensitizing public to make maximum use of these avenues. India already has in place one of the finest payment infrastructure in the world. Simultaneously, issues like connectivity, security and ease of transactions, data protection and user charges are also being addressed. In the long run, this would provide a significant boost to the economy as more and more informal methods of business transactions migrate to the formal sector paving way for greater transparency, financial inclusion (both on deposits and credit side) and better tax compliance.

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DEMONETIZATION: THE IMPACT ON AGRICULTURE

Dr. A. Kumudha

Assistant Professor, PG & Research Department of Economics, Thiagarajar College, Madurai

Abstract

Production in 2016-17 could drop if sowed acreage reduces for want of enough seeds on time to exploit the adequate soil moisture. Reports of stress in agriculture have begun to appear because of demonetization. Cash is the primary mode of transaction in agriculture sector which contributes 15% to India's total output. Formal financing in many parts, especially Punjab, Uttar Pradesh, Odisha, Maharashtra, Gujarat and Kerala is significantly from cooperative banks, which are barred from exchange-deposit of demonetized currency. Notably, this is a time of kharif harvest and start of rabi sowing, partly explaining why this period is dubbed the 'busy season' from a standpoint of credit demand, the other being bunching of festivals and weddings. This paper highlights the impact of demonetization on agriculture in various aspects.

Key words: input-output channels, cash crunch, Cash dependent, agricultural income.

Introduction

Agriculture is impacted through the input-output channels as well as price and output feedback effects. Sale, transport, marketing and distribution of ready produce to wholesale centres or mandis, is dominantly cash-dependent. Disruptions, breaks in the supply chains feedback to farmers as sales fall, increased wastage of perishables, lower revenues that show up as trade dues instead of cash in hand and when credited into bank accounts with limited access affect the sector.

Currently, many of these networks are operating sub-optimally or altogether at a standstill, depending upon location, market links and other item-specific factors. The input side is equally affected as many payments/purchases, such as seeds, fertilizers, implements and tools, are outright in cash. Borrowing-financing operations of larger farmers and organized producers are also cut off or severely clipped.

Steps to ease cash crunch in rural areas

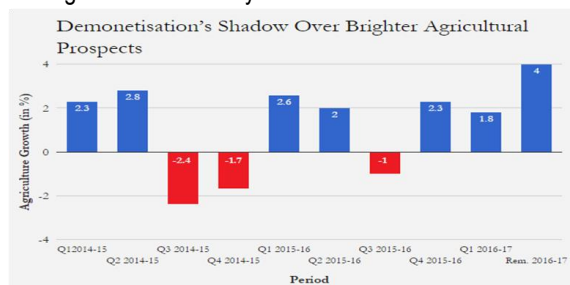
Vegetables and fruits that along with crops added 61% of agriculture's gross value added in 2015-16, depends critically upon a cash-strapped transport sector for daily supply network. Sales have dropped sharply (25-50%) across markets with occurrences of dumping. At present, demand is repressed for want of currency, so prices are subdued, but eventually, supply shortages could cause prices to rise.

Production patterns and cycles vary and there is little guidance as to when the demonetization dust finally settles. However, gestation periods extend from 2-3

months for vegetables and 4-6 months for oilseeds, pulses and cereals. Production losses in vegetables cannot be recouped and is a permanent loss. Lower cereals, oilseeds outputs would persist until the next harvest, or about nine months and it is certain that incomes and profit margins will be hurt. Price and output effects will reflect all the above listed factors. This means considerable fluctuations, increased uncertainty and risk.

Agriculture, under stress for two years, was forecast to grow 4 percent

Agricultural growth in India contracted 0.2 percent in 2014-15 and grew no more than 1.2 percent in 2015-16, largely because of back-to-back droughts. Agriculture was expected to grow at 4 percent this year according to this October 2016 CRISIL report, but demonetisation is likely to dent that forecast. India is currently in the midst of the winter sowing season, but farmers are reported to be running out of cash to buy seeds.



Source: Key Economic Indicators, Office of the Economic Advisor

Indian farmers expect a record harvest this year, as India spend reported in October 2016, but the rural economy—on which 800 million people, or 65 percent of India's population, depend – is largely driven by cash. Farmers buy seeds, fertilizers and farm equipment in cash, pay their workers in cash, and traders and commission agents pay farmers in cash. The shortage of cash is spreading anger in the countryside.

The impact of demonetization on agricultural growth

About 58% of rural household depends on agriculture activities for sustenance and most of the activities are cash based so in the current scenario, the possible impacts on this sector are:

1. The demonetization move have been taken at the crucial time when the farmers are ready for selling their current crop and need cash to buy seeds, fertilizers etc. for next crop.
2. They are unable to afford transport cost to carry their produce to the market.
3. Exploitation of farmers by agents can be possible due to the anxiety of farmers to sell their produce ASAP.
4. They could be exploited more by the monopoly of moneylenders to lend loans at high interest
5. If they are not capable of getting finance for their current produce will be rotten orwasted and therefore huge loss and in the inability of money they can't be able to grow next crop at the proper them ,salt to their injury which can sink them into more debt and suicide cases may be rise
6. This will decrease their family income , other working hands then either migrate to cities or involve them in casual work, will create more burden on urbanization
7. This condition will resonate in the upcoming years causing less agriculture produce, more persons involved in wage labour,less chances of improvement of their conditions.
8. Other small businesses will also be affected as they deal in cash mostly, and lack of bank inclusiveness/ATM and transport connectivity have no other option remaining.

Negative effect on agriculture growth

Rabi crop: Demonetization has significantly affected sowing of rabi crops compared to previous years.

Cash dependent: Rural economy is more cash dependent due to less digital connectivity and education. Hence the people will face high inconvenience.

Government support: No solid safeguard or support

from government to address grievances of farmers.

Loan: It is possible that to ensure good input in land farmers may take loan from unverified sources like moneylenders, which may increase their problem.

Output: As farmers face cash crunch so they may get unfavorable deals in mandis, warehouses etc.

Education: Less education, awareness make rural population more vulnerable to any kind of exploitation.

It is highly necessary that government take steps to get ground reality in rural areas and provide necessary safeguards to ensure collective development.

Impact of demonetization on agricultural income

1. Gross value added in agriculture did not grow at more than 1.5% a year
2. Unable to purchase quality seeds and other inputs required for sowing rabi crops
3. Farmers have borrowed from money lenders at high interest rate to pay inputs , indebtedness rise.
4. Transportation is hampered coz it was unable to afford the high transportation cost.
5. Cooperatives were not ready to exchange the notes due to which farmers were unable to receive loans and credits for agricultural activities.

Impact of demonetization on rural income

1. Demonetization has disrupted agriculture supply chain which hit agriculture household income.
2. Low or no sale of products as traders was not ready to take the goods from farmers fields.
3. Farmers were forced to sell at lower rate than market rate.
4. Incomes of agriculture household decline by 10%
5. Banking correspondents were failed to undertake banking activities due to high pressure of currency demand .
6. Lack of banking branches in core rural areas.
7. Those producing perishables commodities and lacked storage facilities were adversely affected.

Conclusion

An impact on crop production in the rabbi season of 2016-2017 can be disruptive for 67% rural population, before going cashless which is a setback for agricultural growth that was -0.2% in 2015-2016 and was expected to surge at least 1.2% in 2016-2017, will be challenging. Consequently, there was much hope placed on agricultural growth rates in 2016-2017. These hopes have been dashed by demonetization. Demonetization has

swiftly disrupted agricultural supply chains for short-term and hit even the meager incomes agricultural households earn and may also shrink rural as well as urban incomes.

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IMPACT OF DEMONETIZATION IN INDIAN TOURISM

Dr. M. Thahira Banu

Asst. Professor – Dept of Economics, Govt. Arts College, Melur, Madurai Dist

Abstract

A month into India's demonetization initiative, long lines of people looking to exchange notes still spew out of banks, some sectors of the economy continue struggling with the lack of readily available cash, grassroots businesses are still being revolutionized with electronic payment capabilities, and masses of people continue transitioning towards new ways of paying for basic goods and services. On Nov. 8, 86% of India's currency was nullified in a great demonetization effort that aimed to clean out the black market's cash supply and counterfeit notes which completely disrupted the social, political, and economic spheres of the world's second largest emerging market. All 500 and 1,000 rupee notes were instantaneously voided, and a 50 day period ensued where the population could (ideally) redeem their canceled cash for newly designed 500 and 2,000 rupee notes or deposit them into bank accounts. India has done this before. In 1946, all 1,000 and 10,000 rupee notes were recalled. In 1978, 1,000, 5,000, and 10,000 rupee notes were demonetized.

Key words: tourism, tight-knit, leisure travel.

Introduction

Tourists and locals all over India are struggling to find cash in the wake of demonetization. Here's some background information In a very bold and historic move by the Honorable Prime Minister of India, Shri Narendra Modi, all currency in denominations of INR 500 and INR 1,000 have ceased to be an illegal tender effective from the 9th of November 2016. This sudden announcement in the evening of 8th November 2016 has taken the entire nation by surprise. The demonetization move has been taken in view to curb black money, corruption and issues like circulation of fake currency and terror funding. Any big decision is bound to have its impact on several things. Below explained is a view on how the demonetization move might affect your travel plans.

It is a transformational decision taken by the government to ban Rs.500 and Rs.1000 notes from circulation in the market. The decision was taken to minimize the black money and corruption. The RBI will be issuing Rs.500 and Rs.2000 notes from today onwards. They have released a statement by saying that all the Rs.500 and Rs.1000 notes are to be deposited at nearby banks or post-offices. This will be a regular currency circulation all throughout India. All those people who are panicked with this move by the government need not worry at all as the government has assured that 'Your money will be yours. You will not lose anything so there is no point in being scared. There will be no restrictions on non-cash payments by cheques, demand draft's, and electronic fund transfer.

This recent bout of demonetization was planned in secret by a small, tight-knit group led by Prime Minister Modi, and it overtook the country like a flash flood. This surprise was by design, as it was feared that if the black market caught wind of what the government was planning they would find ways to rapidly unload their illicit cash, and the initiative would flop on one of its initially-stated goals.

Of course, this meant that the rest of Indian society was also caught in the demonetization crossfire. Not even the banks - who would be required to do the heavy lifting on the ground - were in the loop. In the days following Modi's announcement, the banks didn't have enough of the newly designed banknotes on-hand to distribute in exchange for the canceled notes, and there simply wasn't an adequate supply of smaller denominations in circulation to run the cash economy. Far from being a 50 day transition, it is estimated that even if India's printing presses were to run 24/7 it would take upwards of four months to a year before the currency supply was adequately restored.

Demonetization & Tourism in India

The bottleneck of the situation, however, still remains the same for both categories. Most of the sites including cultural heritages, shacks, paying guests, Home stays, adventure tourism, reserve forest entry fee etc still work in cash. And at these points, most of the tourists are still struggling. While on the other hand, a report by India Today suggests that the demonetization had no effect on the travel industry. I also think that the demonetization had the effects on the travelers who became a victim by

chance but not by choice. On the other hand, a report published in India.com suggests that demonetization had almost mixed reactions on the leisure travel.

Tourism Faces Demonetization Brunt

In India, the peak tourism season lasts from October to January. While most of the domestic travelers visit Rajasthan, Maharashtra, Gujarat and Karnataka in October and November, hundreds of thousands of pilgrims visit shrines such as Sabarimala in December. The year-end party seekers look forward to a break in Goa and Maharashtra in late December and early January. Most of these tourist destinations have seen a drastic reduction in the bookings this year.

According to a recent study by the Associated Chambers of Commerce & Industry of India (Assocham), there has been a 65 percent drop in Christmas and New Year vacation bookings this year. Tourists who usually look to spend their vacation in Uttarakhand, Madhya Pradesh and Kerala have decided to stay back at home instead of taking their annual break. Following the travel advisory issued by most countries following the demonetization, international travel to India has also dropped by 45 percent. November through January months witness the maximum inflow of international tourists to India. Cash crunch has adversely affected the liquidity of currency exchanges in the country leading to such a situation.

One of the most prominent tourist destinations for the year end period is Goa. Full of sandy beaches, towering churches and cathedrals, cafes and discos, this state has been a highly preferred destination on both domestic and international circuits. In fact, about 30 lakh tourists visit the state each year. After taking an initial hit following the demonetization drive, Goa seems to be back on its feet in time for the New Year. A number of tourists had cut short their vacations in November following the announcement but the bookings for December and January seem to follow patterns of previous years.

The distress that has gripped the domestic travel industry is likely to be a short one. In fact, even Assocham's study suggests that package deals have not been affected much. Only travelers and tourists who prefer to plan their own travel and keep a flexible itinerary have cancelled in the past few weeks. Flights and hotels have slashed their prices and are likely to spark a renewed

interest now. Organised travel may now be preferred to do-it-yourself trips considering that they allow tourists to go cashless to a great extent. It may benefit local eateries, taxi operators and vendors to accept credit and debit cards and payments through mobile wallets. This will soon become necessary to stay in business.

Conclusion

If a large amount of people and businesses are brought into the bosom of the formal economy via the demonetization program, then India could be in for a boost in liquidity and an apparent increase in its recorded economic growth rate. Forbes contributor Naazneen Karmali stated that India's banks could "get turbocharged," as \$75 billion in old currency pours into the system in the form of new deposits. "If you are moving the informal economy into the formal economy and if the transactions which for years were never reported as part of GDP are now transacted through banking channels, it will only add to the GDP," Minister of State Piyush Goyal told the Economic Times. "However, this doesn't make anyone better off—we are after all already insisting that the economic activity was already taking place, and also insisting that we're just changing whether we count it or not," Forbes contributor Tim Worst all pointed out. After the demonetization has come into the effect, there have been a lot of speculations about the effect of demonetization on the tourism industry. According to reports published on many internet sites, we get to read that it has badly affected the tourists as most of the monetary transaction related to the tourism industry in India happens in cash which is true.

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THE IMPACT OF DEMONETISATION IN INDIA

Dr.A.Shyamala

Assistant Professor, Department of Economics, M.S.S. Wakf Board College, Madurai

Abstract

The decision was taken to curtail the illegal use of high denomination currency which was used for corrupt deals in the country. However, with the latest round of demonetisation, the common public and bankers are undoubtedly facing hardship since more than 85% of currency has been rendered illegal in one stroke.

Key words: *Cashless Transaction, Real Estate.*

Introduction

It was on November 8, 2016, that India's Prime Minister Naranedra Modi came out with his master stroke on Corruption, counterfeit Currency, Ferrorism and black money in India. He announced the Government's decision to cancel the legal tender of Rs.500/- and Rs.1,000/- bank notes with effect from November 9, 2016. He also announced the issuance of new Rs.500/- and Rs.1,000/- bank notes in exchange of the old bank notes. The new redesigned series is also expected to be introduced to the denominations of Rs.1,000/-, Rs.100/-, and Rs.50/- in the coming months. The decision was taken to curtail the illegal use of high denomination currency which was used for corrupt deals in the country. However, with the latest round of demonetisation, the common public and bankers are undoubtedly facing hardship since more than 85% of currency has been rendered illegal in one stroke.

General Impact

These demonetisation measures have brought significant immediate effect on the state of the Indian economy. These measures have resulted in a significant decrease in liquidity in the short term. It will gradually ease with the introduction of new currency notes. There are increased deposits with the banks. This in turn is expected to enhance the liquidity position of the banks.

Cashless Transaction

With cash transactions impacted by a decrease in liquidity, alternative payment methods such as e – wallets, e – banking, debit and credit card usage have increased significantly. The banking system will improve as it will slowly head towards a cashless society.

The existing white money of people will be known to the government. It will remain with banks so that it can be put on loan and interest can be generated from it. It will

reduce the risk and cost of cash handling as soft money is safer than hard money. It will also reduce the government liability.

Impact on Key sectors

Real Estate and Construction

The real estate sector in India has traditionally involved in the form of cash transactions. As the demonetisation measures are expected to result in decreased informal finding sources, the real estate sector is expected to be adversely affected. Cash Transactions are most common in secondary sales and so resale transactions are expected to decline. Luxury and high end real estate transactions have also, typically involved large cash transactions. They are funded from informal sources and not from the banks. Therefore, the large property rates will decrease as a result of fewer purchases with significant liquidity. A decline in resale property rate will adversely affect real estate investors.

It will also affect the primary market as funding new become more challenging and also will affect industries related to the real estate, infrastructure and constructive sectors such as the steel and cement industries. The real estate market is expected to stabilise in bank deposits.

Large institutionalised real estate developers are however not expected to be directly affected by such demonetization measures. Since infrastructure development projects are typically part funded by the government, these measures will not impact such projects directly. The unorganised real estate developers who were dependent on cash funding in the past are expected to increasingly rely on institutional investors for funding projects. This will result in a more transparent pricing structure and anticipated stability in the medium and long term.

The long term impact of these demonetization measures on the real estate sector is expected to be positive and complement other measures undertaken by the Government of India.

Automobiles and Auto Ancillary

These demonetisation measures are impacted to impact cash transactions in the automobile industry in India, particularly for 2 wheelers, used vehicles and other secondary automobile and auto ancillary industries. These measures may indirectly affect vehicle manufacturers and potential automobile customers. This effect will be seen more in the rural and semi – urban regions as well as tier 2 and tier 3 cities and towns that cater largely to the 2 wheeler and used vehicle markets primarily driven by cash transactions.

Automobile dealers have focussed on funding initiatives with banks and other financial institutions in order to offer schemes for Cashless purchase and Zero down payments. The short term impact of these initiatives

on the automobile industries, including banks and financial institutions focused on these markets has been Significant.

There are broadly four kinds of transactions in the economy: accounted transactions, unaccounted transactions, those that belong to the informal sector and illegal transactions. The first two categories relate to whether transactions and the corresponding incomes are reported for tax purposes or not. The third category would consist largely of agents who earn incomes below the exemption threshold and therefore do not have any tax liabilities. The uses that cash is put to for these various segments of the economy can be summarised in the form of Table 1. Finally, there would be demand for cash for illegal purposes like bribes in elections, spending over sanctioned limits, dealings in crime and corruption. If one takes a snapshot of the location of cash at any given point of time, it is difficult to predict what the breakup of the cash according to these categories would be, but it would be safe to say that each of these components would be represented in that snapshot.

Table Demand for Cash by various agents in the economy

Description of the activity	Unaccounted transactions (legitimate transactions but not tax paid)	Illegal transactions (corruption, crime, etc.,)	Informal sector transactions	Accounted transactions
Medium of Exchange	Incomes are earned through exchanges in Cash, payments are made in cash.	Payments for crime	Incomes are earned in cash and spent in Cash	Transaction demand for money
Store of value	Balances held in the interim until alternative investment options become available (there exist a number of instruments which yield better return than cash – real estate, lending in the unaccounted or informal sector, and so on).	Balances held in the interim until alternative investment options become available (there exist a number of instruments which yield better return than cash – real estate, lending in the unaccounted or informal sector, and so on).	Savings as well as precautionary purposes (as yet unbanked in the psychological sense)	For Emergencies (precautionary / demand for money)

Turning to the effects of demonetisation, the first major and sustained effect of demonetisation would follow from the extent to which the currency is extinguished and what this currency was being used for. It is being assumed that all currency which will potentially be extinguished would be currency being used as a store of value in the first and second category of transactions in the table above. If this assumption is correct, then the impact of extinguishing this currency would be limited. On the other hand, if the currency is used for any of the other transactions in the economy, either as a store of value or more importantly, as a medium of exchange, then the impact on the economy and the agents in the economy could be substantial. If, for instance, the extinguished cash

was used a medium of exchange in financing unaccounted income generation or income in the informal sector, demonetization would result in these activities closing down and a corresponding reduction in the incomes and employment associated with these activities. The Spillover effect would be felt by the organised sector as well since the consumption from the incomes generated would extend to the formal sector as well. The second change as discussed above, from demonetisation would arise if only a part of the currency deposited in the banks is returned to circulation as cash. This change, if it is executed, would dramatically change the economic environment in the country by forcing agents to move from using cash as a medium of exchange to using cash substitutes. This

appears to be a real possibility given that the Finance Minister as well as the Governor of the Reserve Bank of India have repeatedly emphasised that agents, should be moving to the use of cashless medium where there are no problems in comparison to the cash based medium. For instance, The Hindu reported that "Reserve Bank of India (RBI) has urged citizens to switch to alternative modes of payments such as pre – paid cards, credit and debit cards, mobile banking and Internet banking. In the press conference on November 12, the Union Finance Minister too said that "Those in businesses should start using digital payment gateways, cards and banking system. Life will become simpler in the new financial system that is only viable option. The effect of this change too would be felt differently across the different segments of the economy – agents operating within the formal sector and agents who are familiar with the modern technology would be placed on different footing compared to other agents who need to make the transition.

Government Finances

The effects of demonetization on government finances can be divided into 3 categories

- a. The impact through RBI's finances.
- b. The impact through taxes.
- c. The impact through credit available to financial deficits.

a. Impact through RBI's finances: The RBI earns seignior age through the printing of currency. In the demonetisation, a part of the currency will be extinguished. For this part of the currency, the RBI can print the notes given the assets on its books. RBI however, cannot lend this to the government since that would involve additional liability build up on its balance sheet.

b. Impact through taxes: There are multiple channels through which taxes will be affected. At the point of transaction to the next regime, people attempt to convert cash balances into commodities like gold or luxuries. The government would have a spurt of taxes because of this. It would not last beyond the transaction phase. In the subsequent, period, the impact on indirect taxes would be negative because of the compression in demand. On property taxes, some local bodies have encouraged to pay old and current taxes in the scrapped notes. This would result in an increase in revenue collection in property tax. On Income Tax there can be 2 potential effects.

- I. With compression in the economy there could be reduction in the tax collection.

- II. People choosing to deposit unaccounted balances in the banks and pay taxes and penalty on the same will increase the tax collection.

c. Impact through financing of fiscal deficit

The generation of additional deposits and credit can make more credit available to governments. The amount of borrowing that governments can take on may be limited and the additional supply can mean a decline in the interest rate that government pay on their debt. This could be positive spin – off for the government.

Conclusion

The demonetizations a large shock to the economy. The Impact of the shock is a function of how much of the currency will be replaced at the end of the replacement process and the extent to which currency in circulation is extinguished . The cash that is extinguished would be "Black Money" and hence, should be extinguished to set right perverse structure in the economy. It is likely that there would be a spurt in the banking deposits. One has to keep in mind that a large part of the deposits were earlier used for transactional purposes. So it would be incorrect to interpret this as success of the programme.

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BLACK MONEY IN INDIA

Dr. K.Usha

Assistant Professor, Department of Economics, American College, Madurai

Dr. M.Sheela

Assistant Professor, Department of Economics, American College, Madurai

Abstract

Black money may be hoarded in cash, but eventually gets itself converted into various assets like property, jewellery and durable consumer goods. The problem of black money cannot merely be looked upon as an anti-social activity or an unlawful activity the black-money has now assumed vast dimensions and creates menace. It has been engaging the attention of the Government and the public.

Keyword: Black money, state exchequer, tax evasion, demonetization.

Introduction

Black money in economic terms means 'unrecorded gains'. In other words, it is income which has escaped taxation. It may be hoarded in cash, but eventually gets itself converted into various assets like property, jewellery and durable consumer goods. The problem of black money cannot merely be looked upon as an anti-social activity or an unlawful activity. It is rather, like a cancer in the country's economy which, if not checked in time, will ruin the country's economy. One of the worst consequences of black-money is its pernicious effect on the moral value of our society which puts a premium on dishonesty and shatters the faith of the common man in the dignity of honest labour and lawful living. Black-money results in the functioning of a parallel economy in the country. The problem, therefore, needs immediate attention.

Black-Money Arises Due to Various Reasons

The main cause of black-money is unrealistically high rates of taxes which strain human nature. Corruption prevailing in the tax collection department is also one of the causes of generation of black money. The high rates of taxes induce businessmen to falsify their accounts and they are successful in doing so by bribing the concerned authorities. Tax-laws in country are so complicated that a layman fails to understand it. Even honest assesses are unable to file correct returns. This encourages people to evade tax. Black money also arises from political activities such as elections where candidates spend well above the ceiling prescribed by the Election Commission. There is a growing tendency of funding of political parties with the help of black money. Big business houses are donating a

huge amount of black money to the political parties, especially the ruling party with the sole intention to tame the political leadership for deriving benefits by manipulating policy decision. Another cause of black-money is numerous controls, licenses and other governmental regulations. It is no exaggeration to say that the controls, licensing and permit system has made black money indispensable to businessmen. Black money also arises from illegal activities like smuggling, drug-peddling and Government is still not in a position to control it. Demonstration effect that induces people to copy superior lifestyle is also responsible for creation of black money.

Impact of Black Money

Impact of black money on the Indian economic and social system is explained as follows: The direct effect of black money is the loss of revenue to the state exchequer as a consequence of tax evasion. Tax evasion does not include loss of revenue resulting from illegal economic activity. Black money encourages investment in precious stones and jewellery. This has adverse effects on growth via its demonstration effect. Black money has encouraged diversion of resources in the purchases of real estate and investment in luxurious housing and lot of black money is made white. Black money results in transfer of funds from India to foreign countries through clandestine channels. Black money has corrupted our political system in a most vicious manner and at various levels; MLAs, MPs, Ministers and party functionaries openly go on collecting funds. At the local levels, the local leaders receive money from small traders and businessmen. It is therefore, no exaggeration to say that black money is like a cancerous

growth in the country's economy which, its leads to demonstration effects on all classes of people. Black income has been causing underestimation of GDP in India as an enormous volume of income is diverted to this unaccounted sector resulting in growing continuation of parallel of the country. Black money has resulted in the diversion of resources for the purchase of real estate and luxury housing.

Measures taken by Government to control black money

Many steps have been taken by the Government from time to time to check the generation of black money and tax-evasion. Following Wanchoo Committee's recommendations the Government enacted the Taxation Laws (Amendment) Act, 1975. This act has brought on the statute various provisions for preventing tax-evasion and proliferation of black-money. Deterrent punishments have been, provided for tax-evasion. In 1976 the Government imposed a statutory obligation on the management to carryout physical verification of its assets for the satisfaction of the auditors to ensure that no money is created through the sale of fixed assets.

Demonetization

Although the history of demonetization in India dates back to the time when various rulers ruled this country, the freshest and most significant instances of demonetization in India are:

- On 12th January 1946, Rs. 500, Rs. 1,000 and Rs. 10,000 notes were declared invalid as legal tender.
- New notes of Rs. 1000, Rs. 5000 and Rs. 10,000 came into economy in 1954.
- On 16th January 1978, the Morarji Desai led- *Janata Party* demonetized banknotes of Rs. 1000, 5000 and 10000. Note that, the finance minister at that time was H.M. Patel.
- RBI introduced a new banknote of Rs. 500 into the economy in 1987 to contain inflation.
- On 8th November 2016, the old banknotes of Rs. 500 and Rs. 1000 were barred from being legal tender and new notes of Rs. 2000 were soon introduced.

Also, Denominations of 1, 2, 3, 5, 10, 20 & 25 paise were in circulation till June 30, 2011 but were then withdrawn. 50 paise coins are still in circulation and are called *small coins*. Other denominations called as *rupee coins*. Let us now review some legal facts about demonetization.

Voluntary Disclosure Scheme

The Government may adopt the policy that those who voluntarily disclose their black income of the past to the

taxation authorities will not be punished and penalties may be waived or minimized.

Raids

Income tax department's powers have to be considerably enlarged and it should be empowered to conduct raids on the premises and properties of the taxpayers or any other individuals and can seize the unaccounted income and wealth and take necessary legal actions against the tax evaders.

Rationalization of Controls

Since ill-devised controls are major causes of black money, it is essential to rationalize the control system. Government has taken some steps in this direction by easing the licensing policy etc. But still there are many cumbersome rules and formalities and unnecessary control in many areas, which need to be effectively rationalized.

Taxation Reforms

India needs a rationalized tax structure. Prof. Kaldor, Wanchoo Committee and many others including the authors of the NIPFP Report have recommended a reduction in marginal tax rates, simplification of tax structure, taxation laws and improvements in tax administration.

Vigorous Prosecution

The Wanchoo Committee also recommended that the department should completely reorient itself to a more vigorous prosecution policy in order to instill a wholesome respect for the tax-laws in the minds of the taxpayers.

Special Bearer Bonds

In 1981 and 1991 the Government has introduced a scheme of Special Bearer Bonds to drag black money into the treasury's coffer. It is advocated to unearth black money. But it is to be modified suitably according to the prevailing economic conditions.

Rewards and Awards

In order to encourage the honest taxpayers and create a positive attitude in the minds of the people towards the payment of tax, this can be adopted. The income tax department has introduced a special award scheme for tax paying public. It is called as "**Good Taxpayers Award**" Scheme.

Publicity

In view of the deterrent effect, the nature of all persons in whose cases penalties have been imposed for the concealment of income, wealth etc. should be published in the gazette as well as in the press, giving details of their names, addresses and the amount of penalties etc. If the assessee is a company or firm, the

names of all the Directors of the Company or Partners of the firm should be published.

Arousing Public Conscience

A special drive should be undertaken to arouse public conscience by enhancing the co-operation of the leaders in various walks of life.

Other Measures

- People should be educated with regard to real object of collections of taxes through press, radio, TV, and films.
- Steps should be taken to convince the taxpayers that the money collected through taxes is not spent wastefully but put to proper use.

Conclusion

Parallel economy is a new threat for the Indian economy. In India parallel economy is expanding very rapidly. Government of India introduced commissions under Kaldor, Wanchoo, Rangnekar, Chopra, and Gupta for estimating black economy. There are many factors like Controls and Licensing System, Higher Rates of Taxes, Ineffective Enforcement of Tax Laws, Inflation, Funding of political parties etc. that influence its growth.

In India amount of black money is increasing continuously which badly impacts the economic growth of the nation. Such money is a new challenge for Indian economy. Indian economy is badly affected by black money as it is underestimating GDP, increasing inequality of income, increasing illegal activities etc. Over the past 50 years, the government has at various times announced several schemes offering opportunities to bring black money overboard but the result are not so effective. Some of these schemes are: introducing the scheme of Special Bearer Bonds, demonetizing high denomination currency notes, stringent raids and scheme of voluntary disclosures. These instruments are expected to reduce the volume of the black economy.

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IMPACT OF DEMONETIZATION IN AGRICULTURAL SECTOR IN INDIA

Dr.S.Saravanan

Lecturer in Economics, PG & Research Department of Economics, Thiagarajar College, Madurai

Abstract

The Ministry of Finance has been monitoring the implementation of these measures through exchange of old currency notes for new Rs500 and Rs.2,000 currency notes has been permitted until 31st December 2016 (i.e. 50 days from the date of the announcement). Such currency exchanges have been limited to certain specified amounts announced from time to time. We expect this to have a direct impact on parallel economy and cash transactions. Along with the introduction of Good and Service Tax (expected by April 2017) this constitutes a far reaching reset of the Indian economy. Users should find apps easy to use and in their local language. They should quickly receive delivery, be assured of complete back-end security and have plenty of choices.

Keywords: Parallel Economy, Cash Transaction and Good and Service Tax.

Introduction

On 8th November 2016, India's Prime Minister Narendra Modi announced the Government of India's decision to cancel the legal tender character of Rs.500 and Rs.1, 000 banknotes with effect from 9th November 2016. He also announced the issuance of new Rs..500 and Rs.2,000 banknotes in exchange for the old banknotes.

While the announcement essentially rendered the Rs.500 and Rs.1, 000 banknotes invalid from 9th November 2016, the Ministry of Finance has been monitoring the implementation of these measures through exchange of old currency notes for new Rs500 and Rs.2,000 currency notes has been permitted until 31st December 2016 (i.e. 50 days from the date of the announcement). Such currency exchanges have been limited to certain specified amounts announced from time to time. Cash withdrawals have been limited to ensure adequate supply of new currency notes. Usage of old currency notes has been permitted for certain specified periods and purposes, such as at hospitals and pharmacies, gas stations and foreign currency exchange for tourists

The historic demonetization move by the government is seen as a war on parallel economy, corruption, money laundering and to stop financing aid enjoyed by the terrorists. We expect this to have a direct impact on parallel economy and cash transactions. Along with the introduction of GST (expected by April 2017) this constitutes a far reaching reset of the Indian economy.

The size of high denomination notes: As on Mar-16, Rs 500 and Rs 1000 notes accounted for 85.2% of total notes which is nearly Rs. 15 trn worth currency in the

economy. As such, potentially a maximum of Rs 15 trn worth currency could be deposited into banks until Mar-17. Estimating the size of 'parallel economy': Conservatively assuming current parallel economy to be 25% of India's GDP (World Bank estimated parallel economy to be 23.7% of India's GDP in 2007), we estimate that the total size of unaccounted economy in cash would be around Rs 35-40 trn. This paper discloses and pinpoints the impact of demonetization in India's agriculture sector.

The Impact of Demonetization on Agricultural Growth

About 58% of rural household depends on agriculture activities for sustenance and most of the activities are cash based so in the current scenario, the possible impacts on this sector are;

1. No money to the farmers seeds and fertilizers for cultivation. .
2. lack of money to carry their produce to the market.
3. Exploitation of farmers by agents takes place at the time of demonetisation.
4. They could be exploited more by moneylenders to lend loans at high interest
5. If they are not capable of getting finance for their current produce harvest and sell in the market.
6. Less agriculture due to demonetization leads poor condition among the farmers.
7. Farmers are affected by lack of bank inclusiveness/ATM and transport connectivity have no other option remaining.
8. Rabi crop: Demonetization has significantly affected sowing of rabi crops compared to previous years.

9. Rural economy is more cash dependent due to less digital connectivity and education. Hence the people will face high inconvenience.
10. It is highly necessary that government take steps to get ground reality in rural areas and provide necessary safeguards to ensure collective development. Otherwise it hits the farmers.

Impact of Demonetization Rural Economy

1. Demonetization has disrupted agriculture supply chain which hit agriculture household income.
2. Low or no sale of Agricultural products which reduce income.
3. Farmers were forced to sell at lower rate than market rate.
4. 10% decline in farmers income.
5. Non availability of finance and loan for harvesting leads decline in income.
6. Lack of banking branches in core rural areas.
7. Those producing perishables commodities and lacked storage facilities were adversely affected

Conclusion

To convince agri-input and other merchants, the government should make it easier and cheaper for them to adopt card payment and mobile wallets on a trial basis. Shopkeepers should be educated about how they can expand business by moving from "cash only" to "cash and card" because it attracts more customers. Those customers also spend more because they are not hampered by lack of cash. Once village retailers accept digital payments, rural customers will follow. Exactly the way mobile wallets picked up with Ola and Uber. Economists call it the network effect. Electronic payment points should be available at walking distance. Users should find apps easy to use and in their local language.

They should quickly receive delivery, be assured of complete back-end security and have plenty of choices. The entry of payment banks will hopefully ease some of these pain points.

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IMPACT OF DEMONETIZATION IN INDIA 2016

Dr. Aameena Beevi

Assistant Professor, Department of Economics, M.S.S. Wakf Board College, Madurai

Abstract

Prime Minister Narendra Modi announced that 500- and 1,000-rupee notes (1,000 rupees is about \$15) were no longer legal tender; people were given 50 days to deposit them in bank accounts or exchange them for new notes at banks and post offices — when only half of Indian adults have bank accounts. Beyond a fairly low threshold (under \$4,000), people will be required to explain the source of their cash holdings. All previous instances of large-scale overnight currency cancellations were in countries ravaged by hyperinflation or facing state or economic collapse. Such shock therapy in a major economy is without precedent, so no one can predict the long-term structural impact and the full range of intended Parallel economy is a new threat for the Indian economy. In India parallel economy is expanding very rapidly. Pernicious and perverse consequences. Parallel economy is a new threat for the Indian economy. In India parallel economy is expanding very rapidly. These instruments are expected to reduce the volume of the black economy.

Key Words: Hyperinflation, parallel economy, tax evasion

Introduction

Prime Minister Narendra Modi announced that 500- and 1,000-rupee notes (1,000 rupees is about \$15) were no longer legal tender; people were given 50 days to deposit them in bank accounts or exchange them for new notes at banks and post offices — when only half of Indian adults have bank accounts. Beyond a fairly low threshold (under \$4,000), people will be required to explain the source of their cash holdings. Disruptive technology can unleash creative forces through destructive impact on an industry that exists in a stable equilibrium of vested interests. Will the world's fastest growing big economy show similar resilience and regeneration from deep shock therapy, or will demonetization cure the disease but kill the patient? By withdrawing 86 percent of circulating currency when 70 to 80 percent of transactions are cash-based, has the Indian government burned down its economic house in order to eradicate the pest of corruption?

All previous instances of large-scale overnight currency cancellations were in countries ravaged by hyperinflation or facing state or economic collapse. Such shock therapy in a major economy is without precedent, so no one can predict the long-term structural impact and the full range of intended, pernicious and perverse consequences.

The goal is to eradicate black money, counter tax evasion and destroy counterfeit currency. In most large economies, cash is around 5 percent of GDP; in India it is 12 to 14 percent. Less than one-third of Indians have access to financial institutions. While most banks are concentrated in cities, most Indians live in villages. Forcing businesses to use banks and digital payments will help to bring them inside the tax net.

Demonetization in Indian Economy

Yet it will do little to flush out significant proportions of illicit wealth. Former Finance Minister P. Chidambaram is right: In practice it amounts more to demonization of cash than demonetization of currency. It is shockingly callous in its indifference to the distributional consequences. The ATM networks have been hit by total chaos, while the central bank struggles to print replacement currency. Almost 50 deaths have been reported among people forming long lines at banks. Has a single parliamentarian, let alone Cabinet minister, stood in line to exchange currency notes? The rich have engaged "mules" to line up and exchange their currency for them while the "common man" faces hardships in the daily purchases of food, medicine, bus and rail tickets, and so forth.

Consumer goods sales are reported to have dropped by one-third. Trucks are at a standstill. Farmers have difficulty buying seeds and fertilizer and selling crops and perishable produce. The fishing industry is close to collapse. Few villages have ATMs and having to trek into cities and wait in line for hours means the loss of daily wages — as it does for the rickshaw drivers, street vendors, domestic workers and daily laborers in the cities. The construction industry has been badly hit with significant wage implications for its casual workforce.

Impact of Demonetization

The move by the government to demonetize Rs.500 and Rs.1000 notes by replacing them with new Rs.500 and Rs.2000 notes has taken the country with surprise. The move by the government is to tackle the menace of black money, corruption, terror funding and fake currency. From a market perspective, we think that this is a very welcome move by the government and which has taken the black money hoarders

with surprise. The total value of old Rs.500 and Rs.1000 notes in the circulation is to the tune of Rs.14.2 trillion, which is about 85% of the total value of currency in circulation. This means that the total cash has to now pass through the formal banking channels to get legitimacy. The World Bank in July, 2010 estimated the size of the shadow economy for India at 20.7% of the Gross Domestic Product (GDP) in 1999 and rising to 23.2% in 2007. Assuming that this figure has not risen since then (quite unlikely though) and that the cash component of the shadow economy is also proportional (it could be higher), the estimated unaccounted value of the currency could be to the tune of Rs.3.3 trillion.

Now, post the announcement of demonetization by the government this money would have to either be accounted for by paying the relevant tax and penalties or would get extinguished. There are higher chances of larger proportion of this unaccounted currency getting extinguished as the tax rate and subsequent legal issues could be prohibitively high for such money. If the government would use large proportion for infrastructure spending projects would kick start apex cycle and push economic growth higher in the medium term. The move is also likely to have a habit changing impact in the Indian populous and there could be increased belief of keeping cash in the banks rather than stashed at home and use formal banking channels for their spending needs. With a large part of the cash moving through the banking channels, the banking sector is likely to be flush with funds in the near term and this.

Demonetization Challenges

In the immediate term, the reduced ability of the unorganized sector to deal in cash would impact the demand. Consumption items which had large element of cash dealing involved may see lower demand. Real estate and allied sectors may see near term to medium term negative impact. It may also lead to corporate earnings getting impacted in Q3FY17, as a large part of the old currency gets extinguished and takes time for fresh money to come into circulation.

Real Estate Sector

In the long run this measure along with Real Estate Regulation and Development Act 2016 (RERA) will align the real estate sector to the international standards of doing business resulting in more fund flow from institutional investors, banks and higher unit sales. However, it should significantly reduce liquidity in the market in the near term and should lead to an immediate period of deflation, as money becomes dearer. In the short term, we expect transaction volumes to go down and a downward pressure on prices especially in land and secondary market sales in residential and commercial real estate. In the real estate development

cycle, black money is utilised mostly at the land acquisition stage and also during secondary sale of residential units and strata sale of commercial units. This quantum varies and is higher in business community dominated cities as compared to cities dominated by the salaried class. It is not to say that unaccounted money is not involved in construction, liaising approvals, marketing of the projects, etc; but that is much less in comparison.

Conclusion

Parallel economy is a new threat for the Indian economy. In India parallel economy is expanding very rapidly. Government of India introduced commissions under Kaldor, Wanchoo, Rangnekar, Chopra, and Gupta for estimating black economy. There are many factors like Controls and Licensing System, Higher Rates of Taxes, Ineffective Enforcement of Tax Laws, Inflation, Funding of political parties etc. that influence its growth. In India amount of black money is increasing continuously which badly impacts the economic growth of the nation. Such money is a new challenge for Indian economy. Indian economy is badly affected by black money as it is underestimating GDP, increasing inequality of income, increasing illegal activities etc.

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IMPACT ON DEMONETISATION IN ECONOMY

J. Devika Rani

Assistant Professor, Department of Economics, Mannar Thirumalai Naicker College, Madurai

Abstract

The argument posited in favour of demonetisation is that the cash that would be extinguished would be "black money" and hence, should be rightfully extinguished to set right the perverse incentive structure in the economy. While the facts are not available to anybody, it would be foolhardy to argue that this is the only possibility. Therefore, it is imperative to evaluate the positive and negative impacts that such a shock is expected to have on the economy. Further, the impact of such a move would vary depending on the extent to which the government decides to remonetise. This paper elucidates the impact of such a move on the availability of credit, spending, and level of activity and government finances.

Keywords: demonetization, cashless transactions, credit.

Introduction

The government has implemented a major change in the economic environment by demonetising the high value currency notes – of Rs 500 and Rs 1000 denomination. These ceased to be legal tender from the midnight of 8th of November 2016. People have been given up to December 30, 2016 to exchange the notes held by them. The proposal by the government involves the elimination of these existing notes from circulation and a gradual replacement with a new set of notes. In the short term, it is intended that the cash in circulation would be substantially squeezed since there are limits placed on the amount that individuals can withdraw. In the months to come, this squeeze may be relaxed somewhat. The reasons offered for demonetisation are two-fold: one, to control counterfeit notes that could be contributing to terrorism, in other words a national security concern and second, to undermine or eliminate the "black economy".

Positive Effects on Demonitisation

Human trafficking

Nobel laureate Kailash Satyarthi and others working to fight human trafficking said that the note ban had led to a huge fall in sex trafficking. Satyarthi said the demonetisation would be effective in combating exploitation of children as well as corruption and would be a great obstacle to traffickers. However, 2 months later he expressed his disappointment on Rs 2000 notes being pushed into human trafficking in absence of other concrete steps.

Radical groups

The Demonetization has badly hit Maoist and Naxalites as well. The surrender rate has reached its

highest since the demonetization is announced. It is said that the money these organizations have collected over the years have left with no value and it has caused them to reach to this decision.

Hawala

Mumbai Police reported a setback to Hawala operations. Hawala dealers in Kerala were also affected. The Jammu and Kashmir Police reported the effect of demonetisation on hawala transactions of separatists.

Negative Effects on Demonitisation

Cash Shortage

The scarcity of cash due to demonetisation led to chaos, and most people holding old banknotes faced difficulties exchanging them due to endless lines outside banks and ATMs across India, which became a daily routine for millions of people waiting to deposit or exchange the Rupees 500 and Rupees 1000 banknotes since 9 November. ATMs were running out of cash after a few hours of being functional, and around half the ATMs in the country were non-functional.

Deaths

Several people were reported to have died from standing in queues for hours to exchange their old banknotes. Deaths were also attributed to lack of medical help due to refusal of old banknotes by hospitals.

Stock MARKET Crash

As a combined effect of demonetisation and US presidential election, the stock market indices dropped to an around six-month low in the week following the announcement. The day after the demonetisation

announcement, BSE SENSEX crashed nearly 1,689 points and NIFTY 50 plunged by over 541 points.

Transportation halts

After the demonetisation was announced, about 800,000 truck drivers were affected with scarcity of cash, with around 400,000 trucks stranded at major highways across India were reported. While major highway toll junctions on the Gujarat and Delhi-Mumbai highways also saw long queues as toll plaza operators refused the old banknotes.

Agriculture

Transactions in the Indian agriculture sector are heavily dependent on cash and were adversely affected by the demonetisation of Rupees 500 and Rupees 1,000 banknotes. Due to scarcity of the new banknotes, many farmers have insufficient cash to purchase seeds, fertilizers and pesticides needed for the plantation of rabi crops usually sown around mid-November.

Banking

A State Bank of India branch remained open at night, and a long queue of people waited outside the ATM to withdraw money. In the first four days after the announcement of the step, about Rupees 3 trillion in the form of old Rupees 500 and Rupees 1,000 banknotes had been deposited in the banking system and about Rupees 500 billion had been dispensed via withdrawals from bank accounts, ATMs as well as exchanges over the bank counters. Within these four days, the banking system has handled about 180 million transactions. The State Bank of India reported to have received more than Rupees 300 billion in bank deposit in first two days after demonetisation.

Business

By the second week after demonetisation of Rupees 500 and Rupees 1,000 banknotes, cigarette sales across India witnessed a fall of 30–40 percent, while E-commerce companies saw up to a 30% decline in cash on delivery orders. Several e-commerce companies hailed the demonetisation decision as an impetus to an increase in digital payments. They believe that it would lead to a decline in COD returns which is expected to cut down their costs.

Effects on Government Finances

The effects of demonetisation on government finances can be divided into three categories: the impact through RBI's finances, the impact through taxes and the impact through credit available to finance deficits.

Through RBI's Finances

In the demonetisation, a part of the currency will be extinguished. For this part of the currency, the RBI can print the notes given the assets on its books, but there would be no takers. In other words, this part of the currency would be like new money that can be introduced into the economy and hence yields seigniorage to the RBI once again when released into circulation. RBI, however, cannot lend this to the government since that would involve additional liability buildup on its balance sheet.

Impact through Taxes

There are multiple channels through which taxes will be affected:

- At the point of transition to the new regime, people have attempted to convert cash balances into commodities like gold or luxuries. On these transactions the governments would have a spurt of taxes. This would however not last beyond the transition phase.
- In the subsequent period, the impact on indirect taxes would be negative because of the compression in demand.

Through Financing of Fiscal Deficit

The generation of additional deposits and credit, as a result of the SLR requirements can make more credit available to governments. Given the FRBM (Fiscal Responsibility and Budget Management) limitations, the amount of borrowing that governments can take on may be limited and the additional supply can mean a decline in the interest rate that governments pay on their debt. This could be a positive spin-off for the governments.

Conclusion

The demonetisation undertaken by the government is a large shock to the economy. The impact of the shock in the medium term is a function of how much of the currency will be replaced at the end of the replacement process and the extent to which currency in circulation is extinguished. While it has been argued that the cash that would be extinguished would be "black money" and hence, should be rightfully extinguished to set right the perverse incentive structure in the economy, this argument is based on impressions rather than on facts. It is likely that there would be a spurt in the banking deposits. While interpreting the phenomenon, however, one has to keep in mind that a large part of their deposits were earlier used for transactional purposes. For example, if a small trader deposits 2 lakh Rupees in the Jan Dhan account since the currency in which he held these balances in for

transactional purposes has been scrapped, it would be incorrect to interpret this as success of the programme in bringing in people who were hiding black money.

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IMPACT OF DEMONETIZATION ON VARIOUS SECTORS

Dr. R. Vaheedha Banu

Assistant Professor, Department of Economics, M.S.S. Wakf Board College, Madurai

Abstract

The Coinage Act of 1873 demonetized silver in favor of adopting the gold standard as the legal tender of the United States. The withdrawal of silver from the economy resulted in a contraction of the money supply, which subsequently led to a 5-year economic depression in the country. In response to the dire situation and pressure from silver miners and farmers, the Bland-Allison Act remonetized silver as legal tender in 1878. Another example of demonetization occurred when the nations of the European Monetary Union adopted the euro in 2002. In order to switch to the euro, authorities first fixed exchange rates for the varied national currencies into euros. When the euro was introduced, the old national currencies were demonetized. However, the old currencies remained convertible into euros for a while so that a smooth transition through demonetization would be assured. The sudden nature of the announcement—and the prolonged cash shortages in the weeks that followed—created significant disruption throughout the economy, threatening economic output. The move was heavily criticized as poorly planned and unfair and was met with protests, litigation, and strikes. The main objective of this paper is to know about the meaning of demonetization and to understand the impact of demonetization on various sectors.

Introduction

The Coinage Act of 1873 demonetized silver in favor of adopting the gold standard as the legal tender of the United States. The withdrawal of silver from the economy resulted in a contraction of the money supply, which subsequently led to a 5-year economic depression in the country. In response to the dire situation and pressure from silver miners and farmers, the Bland-Allison Act remonetized silver as legal tender in 1878. Another example of demonetization occurred when the nations of the European Monetary Union adopted the euro in 2002. In order to switch to the euro, authorities first fixed exchange rates for the varied national currencies into euros. When the euro was introduced, the old national currencies were demonetized. However, the old currencies remained convertible into euros for a while so that a smooth transition through demonetization would be assured.

On 8 November 2016, the Government of India announced the demonetisation of all Rs 500 (US\$7.40) and Rs 1,000 (US\$15) banknotes of the Mahatma Gandhi Series as legal tender. The government claimed that the action would curtail the shadow economy and crack down on the use of illicit and counterfeit cash to fund illegal activity and terrorism. The sudden nature of the announcement—and the prolonged cash shortages in the weeks that followed—created significant disruption throughout the economy, threatening economic output. The move was heavily criticized as poorly planned and unfair and was met with protests, litigation, and strikes.

The main objective of this paper is to know about the meaning of demonetization and to understand the impact of demonetization on various sectors.

Impact on Various Sectors on Economy

Demonetisation torpedoed India's economy just when it was getting into a cruise mode, fired by good monsoon-led rural demand and Seventh Pay Commission enabled urban buying. The 8% growth that looked within grasp in the financial year 2017 is beyond horizon now. Only about a quarter of currency cancelled is back in circulation, and that too is being stashed away for emergency. Lower denomination notes are not available to facilitate transactions. The fall in demand will further dent already weak investments. The solutions are boost sentiments big time, cut corporate tax to 25% to stimulate demand, raise income tax slabs to reduce effective tax on income tax payers and offer low interest rate loans for housing through interest subvention. Urgently plough back income from demonetisation into public investments. Budget will determine economy's near future.

On Agriculture

Transactions in the Indian agriculture sector are heavily dependent on cash and were adversely affected by the demonetisation of Rs 500 and Rs 1,000 banknotes. Due to scarcity of the new banknotes, many farmers have insufficient cash to purchase seeds, fertilisers and pesticides needed for the plantation of rabi crops usually sown around mid-November. Farmers and

their unions conducted protest rallies in Gujarat, Amritsar and Muzaffarnagar against the demonetization as well as against restrictions imposed by the Reserve Bank of India on district cooperative central banks which were ordered not to accept or exchange the demonetised banknotes. Interestingly, villages have adapted in some ways better than cities. Government of India allowing tax free deposits of any amounts for farmers have led to many of them getting 20% premium from traders when transacting. Informal credit for daily purchases and use of old notes for key inputs and selling produce have kept rural economy going. Crop planting increased 20-35% every week after demonitisation and remained higher than last year in all weeks after November 8, 2016. But a lot depends on cash supply improving quickly in the new year(2017).

Impact on industry

There was a reduction in industrial output as industries were hit by the cash crisis. It has reduced both, manufacturing and services industries.

Impact on Business

By the second week after demonetization of Rs 500 and Rs1, 000 banknotes, cigarette sales across India witnessed a fall of 30–40%, while E-commerce companies saw up to a 30% decline in cash on delivery (COD) orders. Several e-commerce companies hailed the demonetization decision as an impetus to an increase in digital payments. They believe that it would lead to a decline in COD returns which is expected to cut down their costs.

Impact of GDP Growth

Global analysts cut their forecasts of India's GDP growth rate due to demonetisation. India's GDP in 2016 is estimated to be US\$2.25 trillion, hence, each 1 per cent reduction in growth rate represents a shortfall of US\$22.5 billion (Rs. 1.54 lakh crores) for the Indian economy.

Impact on Stock market

As a combined effect of demonetisation and US presidential election, the stock market indices dropped to an around six-month low in the week following the announcement. The day after the demonetisation announcement, BSE SENSEX crashed nearly 1,689 points and plunged by over 541 points. By the end of the intraday trading session on 15 November 2016, the BSE SENSEX index was lower by 565 points and the NIFTY 50 index was below 8100 intraday.

Impact on Job

The present verdict is mildly negative, and may improve in future. Everything depends on how temporary the pain in. Experts say fundamentals are good for jobs, provided normality returns fast. One change may be generation of more formal sector jobs as informal jobs are hit worst by cash-crunch. Of 60 crore Indians employed, only 6 crore have formal jobs. That may go upto 10 crores in the next 2-3 years.

Impact on Consumer

Consumption, a big GDP contributor, will take a hit for at least two quarters. Two main problems: Low circulation of lower denomination notes, which may be temporary, and wealth erosion, that is impacting big ticket purchases. The solution depends on how many consumers can shift to cashless transactions, which partly depends on how many retailers do an uncertain process at best. Some consumer sector experts said that the Government of India should consider giving a boost to shopping, like Western governments do in tough times. Shopping vouchers to Jan Dhan account holders is one idea. Consumers need to feel good again, tax cuts would be a huge help.

Impact on Real Estate

There is a 40%-plus drop in enquiries and sales across key markets of Mumbai, Delhi, Bengaluru and Pune. Deals in secondary market have come to a standstill. In Bengaluru, drop in deal closings is as much as 60%. Most homebuyers are waiting for big price reductions. With fear of black money transactions and cash crunch added to an already slumping real estate sector, near future is bleak. The current verdict is strongly negative, can get worse. The solution is a big rate cut will help, as will tax concessions on home purchases. RBI policy and budget are the key.

Impact on E-Commerce

Mostly bad, some e-commerce are good. For the online retail market, gross merchandise value (GMV) of players fell by 40-50% in first few weeks after demonetisation, in the middle of their biggest quarter for sales. This condition may remain bleak till March. Even high-value items like expensive Smartphone are selling less. The current verdict is negative, can get worse in short term. Measures like tax cuts will improve sentiment. Sector specific innovations like card or mobile wallet payment on delivery will help.

Impact on Tourism

Peak tourism period of November-December 2016 badly hit. For tourist destinations beyond metros, business may be down by as much as 40%. Tourism business in metros may go down by 10%. Cash shortage at airports and hotels are a big problem. And many national monuments entry points don't have card payments facilities. Western countries have issued advisories on cash crunch in India. The present condition is strongly negative; peak season may be badly hit. The solution is to provide more cash at various critical points in tourist destinations as most vendors don't have cashless payment systems at tourist spots, or have a massive drive to spread cashless transactions.

On Autos

In post-demonetisation, there was some cushion at wholesale level for Maruti Suzuki, Toyota Kirloskar Motor and Tata Motors from dealer demand for new models or new variants like Baleno, Brezza, Fortuner, Innova and Tiago. Hyundai India, Honda Cars India and Mahindra & Mahindra have seen some short-term impact on sales

On Aviation

In world's fastest growing aviation market, passenger traffic growth will fall below 20% from an average 23-24% growth recorded in previous years. Flight bookings dropped drastically in days after demonetisation. Recovered somewhat later. Offline travel agents, who took cash, badly hit. Flights to small towns, where cash payments are the norm, are also badly hit, may post negative growth. The solution is to offer discount from airlines and making sure small operators take online payments.

On Telecom

Mobile phone shipments fell by 26% in November, compared to the previous month. Smartphone shipments are down by 23%. Inventory pile up with retailers. Big sellers who do card and online transactions less badly hit. Zero cost EMI offers from brands, retailers, buy now pay later plans, among other offers can boost demand. But future of cash purchase by low-end consumers still dim.

On Gold

Scared by government warnings, sale of gold against old currency notes fell drastically. NRI customers have fled. Sales are down sharply, and it was already a bad year for gold. There will be no immediate solution, a long wait for sentiments to turn around, and fundamental change in terms of fewer cash transactions can have big impact.

On Metals

Real estate slowdown has hit steel, and may hit further. Aluminium, copper, zinc also hit since they are raw materials in building industry products. If auto sales are hit badly, metals business will do worse. The present condition is negative, can get worse. Massive government spends on infrastructure till sentiments and cash supply improves. Budget will be the key.

Conclusion

The critics of demonetisation are absolutely right about the adverse short-term impact of the policy. It has caused major inconvenience to a vast majority, particularly to those who have the least financial resources. Of course, it will shave off some amount of GDP growth for anywhere between a quarter and three quarters because of the economic disruption it has caused in different sectors of the economy. The real impact of demonetisation must be weighed in the medium/long term.

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IMPACT OF DEMONETIZATION ON INDIAN ECONOMY

Dr.S.Karthikeyan

*Assistant Professor, Department of Economics and Centre for Research in Economics,
The Madura College (Autonomous), Madurai*

Dr.S.Senthil kumar

*Assistant Professor, Department of Economics,
Cardamom Planters Association College, Bodinayakanur*

Abstract

The demonetisation drive by Prime Minister Narendra Modi on November 8, 2016 has crowned digital cash as the king of all payment instruments in India. According to the RBI data for December 2016, digital wallet transactions grew almost four times in both value and volume terms compared to the year-ago period. There was also a sharp jump in mobile banking transactions. Since demonetisation was notified on November 8, 2016 have seen the biggest jump in digital transactions. A phenomenal increase in awareness which has resulted in more acceptance across merchants and users. There has also been a spike in point of sales (PoS) terminals. While the number of PoS units saw a marginal rise from December 2015 (12.45 lakh units) to November 2016 (13.85 lakh), by the end of December 2016, it shot up to 17.05 lakh units. "It is clear that the spike in digital transactions is driven by demonetisation. It also shows a forced change in the behaviour of people since they had no other option, which provides PoS-based payment solutions to retailers. The present paper aims to discuss about the impact of demonetization on Indian Economy.

Key Words: Demonetization, Pos, GDP, Paper money, Black Money

Introduction

The economic idea of demonetization is good but it has to be taken into consideration that most of the black money is kept in the form of land, buildings or gold or kept abroad. What is in cash constitutes only 4% of the total amount of black money on which taxes are not being paid. Out of this, a lot of money is in circulation in everyday transaction like if someone is building a house; the bill is not paid through banks for sand, bricks etc. This money goes into the other systems though it has been drawn from bank. These things will come under control with this step. Small farmers, sellers, merchants, daily wage labourers and traders are suffering because of lack of proper planning, intelligence and foresight such as recalibration of ATM machines. There was need to pile up enough 100 Rupee notes and other smaller denomination notes in the market before taking this step. It is being said by critics that this step was taken only to bolster the image of the Prime Minister as he has been unable to deliver on GDP growth, inflation and bringing the black money from abroad.

Objectives

1. To know the quantum of currency circulation.
2. To know the conversion period of currency swapping.
3. To analyse the impact of black money.
4. To understand its adverse effect on economic growth.

Though under the RBI act 1934, the Reserve Bank is authorised to issue Bank notes in different denominational values, the act did not permit issue of denominational values beyond ten thousand rupee Bank Notes. Presently the Bank Notes are issued in the denomination of Rs.5/-, Rs.10/-, Rs.20/-, Rs.50/-, Rs.100/-, Rs.500/- and Rs.1,000/- only. Paper Currencies in denominations like Re.1/- and Rs.2/-, Rs 50,000/- and Rs 10,000/- which were in circulation at certain periods of years have since been discontinued totally, in different periods, for different reasons which will be discussed later. Bank Notes valued Re.1/- and Rs.2/- have been coined. Though Rs 5/- denominational Bank Notes are not in continuous printing program, it is printed at some short intervals and discontinued. However as per RBI notification Bank notes in those two denominations issued earlier are still valid and are in circulation to the extent they are available. Read RBI version the issues.

Currency Swapping

Under this arrangement, two countries or parties exchange specific amounts of different currencies for a period of time. In the latest agreement between New Delhi and Tokyo, both the sides will accept the Indian rupee and the Japanese yen. According to Montek Singh Ahluwalia, the deal between India and Japan would add firepower to India's reserves (By August 30, India's total forex reserves

were at \$275.49 billion, lowest in the last 39 months) and "second line of defence for the rupee". Apart from Japan, India has currency swap deal of \$100 million with its neighbouring country, Bhutan. Another neighbour China has also signed a currency swap deal with Britain and France in 2013. Russia and Brazil also swap currency with China. New Delhi and Beijing have also shown interest in entering into an agreement and India is aiming such agreements with other BRICS countries. Basically, it has become an important derivative tool to hedge the exchange rate risks after the global financial crisis hit in 2008. Government formed an eleven-member task force to work on currency-swap agreements. The task force has members from the commerce ministry, department of economic affairs and financial services, Reserve Bank of India (RBI), State Bank of India (SBI), Confederation of Indian Industry (CII), Federation of Indian Chambers of Commerce and Industry (FICCI) and exporters body Federation of Indian Export Organisation (FIEO).

Impact on Black Money

Recently Indian government has demonetized the high value currencies i.e currency notes of 500 and 1000 with objective to unearth the black money, and to curb the corruption, counterfeit currency as well as terror financing. This decision was considered as biggest cleanliness drive against the black money in the history of Indian economy. But there are various views of experts on demonetization, as some argues that it will hit the black money and other argued in negative. How it will curb black money-

- In India all sections of the society are accustomed to use cash transactions, and this habit is unscrupulously misused by some bad elements of the society. Such habit resulted in even people with accounted money are started using cash transaction for high value transactions.
- It is resulted into parallel economy with unaccounted money, even much stronger than regular economy. The parallel economy black money, corruption, counterfeit currency and terror financing. These issues hampered growth and development of the economy.
- This background demonetisation of Rs 500 and Rs 1,000 currency notes as a master stroke, as the move will address issues like black money and corruption and also help the economy become more digital.
- The move will either unearth the black money slashed in the form of cash or forces to destroy those unaccounted currencies. Demonetisation will curb the

menace of black money and will help check stashing of funds to a large extent.

- Similarly it has major impact on corruption that exists in India and also on financing of terror activities in India. Hence it was considered as courageous step in the fight against unaccounted money.

Impact of Demonetization on India and Investments

In an address to the nation on November 8, India's Prime Minister, Narendra Modi, declared that the two highest denomination currency notes—the 500 rupee note and the 1,000 rupee note -won't remain legal tender. The notes were demonetized at midnight on November 8. The move aimed to curb black money in the financial system. Black money is one of the factors holding back the economy.

The demonetization was a surprise. Since the announcement, the media discussed the pros and cons for consumers and the banking system (HDB) (IBN). According to the RBI's (Reserve Bank of India) Annual Report for April 2015 to March 2016, the value of the currency notes at the end of March 2016 was 16.42 trillion Indian rupees. The 500 rupee and 1,000 rupee currency notes formed 86.4% of the value. In one stroke, the government removed 86.4% of the currency in circulation by value. In terms of volume, the currency notes of these two denominations formed 24.4% of a total 90.27 billion pieces. Also, RBI data showed that as of March 2016, 632,926 currency notes were counterfeit—known as an FICN (Fake Indian Currency Note). As a proportion of NIC (Notes in Circulation), the 1,000 rupee and 500 rupee notes were the highest. Nullifying these FICNs was also part of the demonetization move. The demonetization of the 500 rupee note and the 1,000 rupee note—the two highest currency denominations available in India—will likely hit the economy hard in the short term. The surprise move is expected to grind the consumption activity in the Indian economy to a virtual halt. The service sector, which dominates economic activity and involves a sizable chunk of cash transactions, will likely be hit the hardest.

Fall on Loan Burden

Apart from cutting deposit rates, banks reduced their lending rates as well. In India, loans sanctioned from April 1 are with reference to the MCLR (Marginal Cost of funds-based Lending Rate), instead of the Base Rate, which was used earlier. It will translate into lower interest rates on existing floating rate loans and new loans. The reduction in lending rates is expected to stoke lending by tempting

consumers to take out loans for purchasing expensive consumer discretionary items like vehicles and houses.

Demonetization and Monetary Transmission

Policy transmission is the translation of monetary policy actions into the financial system through banking and trading channels. The RBI (Reserve Bank of India) has been on a rate reduction cycle since January 2015. Before the January 2015 meeting, the repo rate stood at 8%. Its journey from that level to 6.3% currently includes six rate cuts totaling 175 basis points. However, banks have been slow in transmitting the benefit to consumers.

After being flush with deposits, it's expected that banks will reduce their lending rates sizably, improve monetary transmission, and benefit consumers—both corporate (RDY) (VEDL) (WIT) and individual. Any increase in economic activity due to more consumption on account of lower rates can be beneficial to India-focused funds (EPI) (FINGX) as well.

Indian Rupee Fell

The Indian rupee fell against the US dollar. It mainly fell due to Donald Trump's victory in the US presidential election. Given the pressure on the local unit and its relative stability, it seems like the Reserve Bank of India has been working hard to keep the currency stable.

Conclusion

The Demonetization of rupee has pros and cons. It is like a head and tail. In order to control the black money, it is necessary for the country to take methodology through

which this can be controlled by swapping as well as by changing the denomination. Demonetization put a great impact on the economy growth rate. As we can see the above statistics tell us that rupee is devalued, loans rate are declining, investors are not ready to invest their money in different derivations, the market is declining day by day due to unavailability of cash. The most affected class is middle and lower level class. They are unable to get the money from their own account after spending long hours waiting in a queue. Savings are decreasing and bankers are not getting deposits. It causes unstable condition in the economy.

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IMPACT OF DEMONETIZATION IN INDIAN ECONOMY

Dr.P.Senthil kumar

Lecturer in Economics, PG & Research Department of Economics, Thiagarajar College, Madurai

V.Kannan

Lecturer in Economics, PG & Research Department of Economics, Thiagarajar College, Madurai

Abstract

The currency that is being attempted to be demonetized is around Rs. 15 lakh crores. It is being estimated (internal estimates) that around 20% of this currency is in black. We believe that this money either will not come back into the system for exchange for new notes or will be surrendered as black money and taxes thereon will be paid. Assuming that the size of unaccounted economy in India, conservatively, is nearly 30 per cent of the official economy, amount of 4254 billion in high denomination notes could be due to unaccounted money. Especially common men, small investment related enterprises are adversely affected. Informal sector is also faced severe problem and its activities have been reduced by demonetization.

Keywords: Internal Estimates, Conservative and Unaccounted Money.

Introduction

The total currency in circulation as on Oct 28, 2016 was INR 17.54 lakh crores. According to the Reserve Bank of India (RBI), 86% of this component is in currency notes of INR 500 and INR 1000 denomination. Therefore, the currency that is being attempted to be demonetized is around Rs. 15 lakh crores. It is being estimated (internal estimates) that around 20% of this currency is in black. We believe that this money either will not come back into the system for exchange for new notes or will be surrendered as black money and taxes thereon will be paid.

Prime Minister Narendra Modi has announced demonetisation of high denomination currency on 8th November 2016 keeping in view the manifesto of the party to fight corruption and respecting the sentiments of voters. Despite the pain which people are facing in the exercise, generally the scheme has been hailed by Indians across the spectrum. The sentiments are positive and encouraging. First, some facts about the demonetised currencies. The note of Rs.500 was introduced in October 1987-88 while notes of Rs.1,000 were discontinued in January 1978 and reissued in November 2000. The history of Rs.1,000 note is interesting. It was first introduced in 1938 under the British rule and then demonetised in January 1946. Once again it was introduced in 1954 and demonetised in 1978 to be re-introduced in 2000. The total currency in circulation as on end March 31, 2016 is 16,415 billion of which notes of 1,000 denomination account for 38.6 per cent (6,326 billion) and 500 account for 47.8 per

cent (7,854 billion). The importance of Rs. 500 has been increasing over the years, from 4.1 per cent on March 31, 1990 to 47.2 per cent on March 31, 2016. Similarly, the share of Rs.1,000 note has increased from 1.7 per cent in 2001 to 38 per cent in 2016. The total amount of Rs.500 and Rs.1,000 notes amount to 14,180 billion as compared with India's national Income of Rs.1,35,761 billion in 2015-16 or about 10.5 per cent of GDP. Assuming that the size of unaccounted economy in India, conservatively, is nearly 30 per cent of the official economy, amount of 4254 billion in high denomination notes could be due to unaccounted money. The main objective of this paper is to reveal the impact of demonetization in Indian Economy.

General Impact of Demonetisation

These demonetization measures have had significant and immediate impact on the state of the Indian economy. These measures are also expected to result in long-term impact on certain industries and sectors. These measures have resulted in a significant decrease in liquidity in the short term, which is expected to ease gradually with the introduction and circulation of the new currency notes. As a result of these measures and increased deposits with banks, the bank deposit base has increased significantly, and financial savings are expected to increase as a result of the shift from unproductive physical asset based savings to interest-bearing financial assets. This, in turn, is expected to enhance the liquidity position of banks, which can be leveraged for lending purposes.

An increase in the deposit base may also enable banks to lower the blended cost of funds as higher CASA (current accounts, savings accounts) deposits enable replacement of higher borrowing costs and decrease overall cost of funds. With cash transactions impacted by a decrease in liquidity, alternative payment methods, such as e-wallets, online transactions using e-banking, debit and credit card usage have increased significantly. This will increase usage of such payment systems, and enable a shift towards an efficient cashless infrastructure.

Reduced liquidity has also caused a sharp decline in the availability of disposable income, affecting spending patterns and consumption trends in the economy in the short term. These trends, together with certain industry-specific issues discussed below, are expected to affect India's GDP growth rates adversely in the fiscal year ending March 31, 2017. While rating agency Fitch has projected a decrease in India's GDP growth by approximately 50 basis points, other projections peg India's GDP growth rate for fiscal years ending March 31, 2018 and 2019 lower by approximately 30 basis points. These forecasts indicate that an upgrade of India's credit ratings for the next two years remains unlikely, although India's current sovereign credit rating of 'BBB-' is expected to remain steady in the long term.

Impact on Key Sectors

❖ Real Estate and Construction

The real estate sector in India has traditionally involved a significant level of informal funding in the form of cash transactions. As the demonetization measures are expected to result in decreased informal funding sources, the real estate sector is expected to be adversely affected.

Cash transactions are most common in secondary sales, and resale transactions are expected to decline. While these measures are expected to in the long term promote transparent pricing in the real estate sector, decreased liquidity resulting from lower informal funding sources is expected to significantly weaken the demand for resale properties. Luxury and high-end real estate transactions have also typically involved large cash transactions, with a significant proportion funded from informal sources, and not from banks and other financial institutions. Luxury property rates are therefore expected to decrease as a result of fewer purchasers with significant liquidity. A decline in resale property rates is also expected to adversely affect real estate investors that intend to leverage existing real estate investments for investment in new projects. In turn, this is expected to affect the primary

market as funding new projects become more challenging, and is also expected to affect industries related to the real estate, infrastructure and construction sectors, such as the steel and cement industries. The real estate market is however expected to stabilize with the increase in bank deposits, gradual stabilization in banking operations and resultant lower cost of funds.

The long term impact of these demonetization measures on the real estate sector is expected to be positive, and complement other measures undertaken by the Government of India, including the introduction of the Real Estate (Regulation and Development) Act, 2016 (RERDA) and the implementation of the Benami Transactions (Prohibition) Act, 1988 (BTPA). The RERDA contemplates the establishment of the Real Estate Regulatory Authority (RERA) to regulate residential and commercial real estate transactions. It requires all real estate projects involving land exceeding a specified area to be registered with the RERA. In order to ensure appropriate application of earmarked project funds, it also requires developers to maintain a significant percentage of the project funds in a dedicated account. The BTPA prohibits property transactions, including transactions undertaken for and on account of a third party beneficiary funding such transaction, irrespective of complicity of the named owner; such transactions are now subject to criminal penalties as well, and the relevant property may be subject to confiscation.

❖ Automobiles and Auto Ancillary

These demonetization measures are expected to impact cash transactions in the automobile industry in India, particularly for two-wheelers, used vehicles and other secondary automobile and auto ancillary industries. These measures may indirectly affect OEMs as well as potential automobile customers may find sale of older vehicles more challenging as a result of the reduced liquidity. In particular, these measures are expected to significantly affect rural and semi-urban regions, as well as tier 2 and tier 3 cities and towns that cater largely to the two-wheeler and used vehicle markets primarily driven by cash transactions. Although the comprehensive long term impact of these demonetization measures cannot be fully ascertained at this stage, the overall economy is expected to benefit from a decrease in unaccounted cash transactions and an elimination of counterfeit currency notes, leading to more effective tax collection and increased transparency in ascertaining transaction costs. An increase in transparency is also likely to improve attractiveness for foreign investors, while higher bank

deposits and formalizing large hitherto unaccounted for income streams is expected to improve the fiscal deficit of India.

Impact on Prices and Inflation

Food prices can go up leading to a general rise in prices. Prices can rise on account of the exchange rate depreciation compared to the pre-domination level as well, since this will increase the value of imports, especially in the face of crude prices firming up in the world markets. The latest bi-monthly review of the RBI did take these inflationary possibilities into account and kept the repo rate unchanged. Whether the inflation rate will be affected as well is not immediately clear, but if there is demonetisation-generated crop failure during 2016-2017 and crude prices continue to rise, then stagflation possibilities cannot be ruled out.

Conclusion

The demonetization measure is the random shock to the economic systems well as every Indian citizen. Sudden remarkable changes in the monetary system which contract the economic activity. Especially common men, small investment related enterprises are adversely

affected. Informal sector is also faced severe problem and its activities have been reduced by demonetization. On the whole there may be possibility of cut down in production of agriculture and manufacturing sectors which may lead price rises in the following years in the economy.

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DEMONETIZATION: MOTHER OF ALL ECONOMIC REFORMS

Dr.P.Kannan

Associate Professor of Economics, The Madura College, Madurai

Abstract

In India in the year 1946 Rs 1000 and Rs 10000 notes were withdrawn from circulation in 1954 Rs 1000 and 10000 were reintroduced and Rs 5000 came in to circulation. In 1978 Janata party demonetized Rs 1000 Rs 5000 and 10000 notes. Government of India introduced Rs 500 notes in the year 1987. Again notes of Rs 1000 made a comeback in 2000. Now that is in 2016 Notes of Rs 500 and 1000 is no longer legal tender Rs 2000 note printed. Bank notes of lesser denominations went caput and the ceiling on permissible withdrawals per person per day, the first of its kind, has left the masses angry. ATM's have gone dry in multiple locations and in quite a few bank branches customers were turned away. To us the single most significant development arising out of this is the increased use of credit cards, debit cards, and E-wallets, heralding India's move to the cashless society.

Keywords: circulation, E-wallets, cashless society, legal tender

Introduction

In India in the year 1946 Rs 1000 and Rs 10000 notes were withdrawn from circulation in 1954 Rs 1000 and 10000 were reintroduced and Rs 5000 came in to circulation. In 1978 Janata party demonetized Rs 1000 Rs 5000 and 10000 notes. Government of India introduced Rs 500 notes in the year 1987. Again notes of Rs 1000 made a comeback in 2000. Now that is in 2016 Notes of Rs 500 and 1000 is no longer legal tender Rs 2000 note printed.

with that, he walks into history. The announcement caught his fellow countrymen unaware. It also grabbed them by the scruff of their neck and jolted them, as they started at the prospect of wealth loss. But the country's second citizen assured that honest tax payers would not lose their money, enough steps have been taken to meet the demands of cash. He asked the Indians to join hands with the government to wipe out the four menaces of corruption, black money forgery and terrorism.

Demonetization in other countries

From Papier mark to Rentenmark to Deutsche mark to the Euro Germany has witnessed many phases of demonetization in recent history. In 1969 Fiji demonetized pounds so as to transition a new decimal currency structure. Australia introduced polypropylene polymer bank notes, a measure undertaken against counterfeiting. This demonetized the paper based notes in 1996 when countries adapted the euro the old currencies were converted in 2000. Again in 2015 The State Bank of Pakistan phased notes with old designs.

Pluses and Minuses of Demonetization

There were inevitable pluses and minuses, the cheers and jeers, the hand claps and brickbats, as the nation gets to grips with the consequences of demonetization.

It is an excellent thought that tons of money kept hidden in secret vaults of tax cheats has found its way to the banks and fake notes have gone bust. It has followed inevitable hurt on the lower income group. Bank notes of lesser denominations went caput and the ceiling on permissible withdrawals per person per day, the first of its kind, has left the masses angry. ATM's have gone dry in multiple locations and in quite a few bank branches customers were turned away. The Government and the country's Central Bank were clearly unprepared and were learning on the go. For good or otherwise, the Prime Minister used a clever mix of patriotism, a quick narration of his personal sacrifice extending back to the last fifty years of his life and whipping tears to make home his point. It is of course, another matter that the great cash switch, the largest across the world, anytime, anywhere is going through and the discomfort of the opposition.

Demonetization in India

Demonetization is the mother of all economic reforms announced by Narendra Modi, the first prime minister to be born in the post-independent India, hit the bullet.

We doff our hats at Modi for announcing the demonetization of bank notes INR500 and INR1000 overnight without warning, these notes have been rendered worth less pieces of tissue as India took the first baby step in moving towards a cash less corruption free society. It was Modi's version of freedom at midnight and

Demonetization Economic Point

In economics what Modi has done is called demonetization. Simply it means stripping the currency unit of its status and legal tender. The demonetized unit has to be replaced by a fresher version to enable financial transactions. Resorted to when there is a change in the national currency, it is a measure to club the menaces of forgery and tax evaded cash (black money) that lie tucked away in undetectable pockets. Black money like poverty is the dark under belly of Indian Economy. A curse on honest tax players who fund the Exchequer, it is a weed that has to be uprooted. This coupled with corruption and hinders progress. The first advantage of demonetization is the sucking out of the system tons of fake money reportedly floating in the economy.

The second advantage is the thrashing of real money that does not come back to the RBI. This money is an indication of the extent of cash black money in Indian. So we have fake money black real money and white real money with fake money killed, with black money going out, the quantum of money supply comes down and only the white real money stays. There is that much fewer money chasing goods and so inflation should fall. Undoubtedly the Government has benefited from the money that has made its way into the formal channel. For banking sector, it has increased the deposit base of banks and changes in lending rates and deposit rates are expected.

The RBI is also expected to ease its monetary policy over the next few months. The public, in turn, is projected to make a greater use of financial instruments like cheques, online transactions, credit cards etc.

As for the public, the citizens are benefited in the long run, because their honest money stays safe and hidden money is expected to be accounted. The possibility that legal tender could be demonetized any time without even a signal, brings in the wisdom that hoarding cash is not the

best things to do. Expectations that this would prompt people, to be honest with their taxes have growth, and in reward, the Government is also expected to display some leniency in tax rates.

Demonetization and After Math

There are two types of money they are fake money and real money. One believes that the fake money will not be changed as the bankers are expected to be smart in spotting that. The real money, in turn, is broken into white money and black money. While black money is return to the system. Be that it may, the very fact huge chunk of money gets sucked out of the system would mean the supply of money Comes down dramatically and this could have far reaching consequences of inflation.

Conclusion

The shortage of currency has prompted many traders to move on to credit card billing. Online sales are witnessing a boost, as most of the portals use cards and Internet banking for payment. People are being educated about the benefits of going cashless, the practical way. To us the single most significant development arising out of this is the increased use of credit cards, debit cards, and E-wallets, heralding India's move to the cashless society.

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DEMONETISATION: THE IMPACT ON REAL ESTATE SECTOR IN INDIA

Dr. V.Sriman Narayanan

*Assistant Professor, Dept., of Economics, Centre for Research in Economics,
The Madura College (Autonomous), Madurai*

Dr. R.Senthil Kumar

Assistant Professor, Department of Economics, M.S.S. Wakf Board College, Madurai

Abstract

Indian Economy has far been a hit of black money and corruption. The Indian system looked constant resulting in crores of unreported money flowing in and out from the country. The Indian Government, in order to curtail the flow of black money came up with the Income Declaration Scheme (IDS), which gives holders of undeclared wealth a chance to come clean by paying tax, surcharge and penalty of 45 per cent and escape punishment. This scheme however, did not turn out to be successful. The Government, in an unprecedented move banned the five hundred and thousand rupee notes on 8th November in an attempt to resolve the issues of corruption, black money and counterfeit notes. The so called surgical strike on black money is expected to cleanse the Indian economy and bring in various unorganized sectors which account for a large part of the Indian Economy into the formal and registered part of the Indian banking system. Demonetization as a cleaning exercise may manufacture several good things in the economy. The Service Sector comprises areas such as trade, hotels and restaurants, transport, communication, finance, insurance, and real estate, among others, and accounts for 60% of India's \$2 trillion GDP. The need of the hour is to make the real estate sector in a much evolved manner and increase the transparency and cleanse the entire system. While the short-term impact is negative, developers expect things to return to normal over the course of the fiscal year. Some are hoping that rate cuts in the coming months would enhance domestic sales.

Keywords : Demonetisation, Surgical strike, Real Estate, RERA, Counterfeit Notes

Introduction

Indian Economy has far been a hit of black money and corruption. The Indian system looked constant resulting in crores of unreported money flowing in and out from the country. The Indian Government, in order to curtail the flow of black money came up with the Income Declaration Scheme (IDS), which gives holders of undeclared wealth a chance to come clean by paying tax, surcharge and penalty of 45 per cent and escape punishment. This scheme however, did not turn out to be successful. The Government, in an unprecedented move banned the five hundred and thousand rupee notes on 8th November in an attempt to resolve the issues of corruption, black money and counterfeit notes. Demonetization as a cleaning exercise may manufacture several good things in the economy. At the same time, it creates unavoidable income and welfare losses to the poor sections of the society who gets income based on their daily work and those who doesn't have the digital transaction culture. Overall economic activities will be reduced in the short term. But the endless benefits of having more transparency and reduced volume of black money activities can be pointed as long term benefits.

The so called surgical strike on black money is expected to cleanse the Indian economy and bring in various unorganized sectors which account for a large part of the Indian Economy into the formal and registered part of the Indian banking system. The Service Sector comprises areas such as trade, hotels and restaurants, transport, communication, finance, insurance, and real estate, among others, and accounts for 60% of India's \$2 trillion GDP. The need of the hour is to make the real estate sector in a much evolved manner and increase the transparency and cleanse the entire system.

Impact on the Real Estate Sector

Cash transactions have been an integral part of the Indian real estate sector. Market rates across cities in India are usually higher than government prescribed rates. Cash transactions have contributed in large parts, by helping hide the real extent of transactions. This has hurt the interest of genuine home-buyers and honest taxpayers.

Despite a difficult last few quarters and depressed demand for property; real estate developers have held prices at a high level. In the short term, demonetization of

Rs 500 and Rs 1000 notes will add to the woes of the industry, as cash transactions will be sucked out of the economy. Speculative buying will reduce significantly leading to increased build-up in inventory and pressure on builders to relax prices. The accompanying deflationary impact will serve the genuine home-buyer well in the form of affordable homes in the mid to long term. There will be a tipping point where prices of homes will have to correct, if they haven't already, in line with market demand.

Developers and consultants say that home sales have slowed down significantly as consumers defer home purchases. Land transactions are at a standstill. Developers have deferred launches of premium projects while prices of land and properties, particularly luxury homes, are likely to drop in the next 3-6 months. Even secondary (resale) property markets sales have dropped by 50%, say brokers and analysts. There will be minimal impact on large institutionalized players with a solid brand and governance framework. Sales largely driven by the salaried class or investors with limited cash involvement would not suffer. Smaller developers are understandably very concerned right now because many of them have depended on cash transactions. We are very likely to see a clean-up of non-serious players due to this 'surgical strike' on the parallel economy. The impact of RERA [Real Estate (Regulation and Development Act)] will further discipline the industry, which will be good for its health in the long term. Developers who were using cash to fund their construction activities are likely to face short term difficulties and execution delays.

The primary sales segment is largely influenced by home finance players, and deals tend to be facilitated in a transparent manner. This segment will therefore, see at best a limited impact in the larger cities, though some tier 2 and tier 3 cities where cash components have been a factor even in primary sales will see a business crunch. The secondary or resale market will, however, certainly be impacted, given the fact that this segment does see the involvement of cash component.

Above all, every honest taxpayer should hail this decision. In the present economical situation, black money has inflated prices in real estate, gold and a few other sectors, making it a challenge for a common Indian citizen to invest. However the government's attempt to curb black money will significantly lower the prices in such sectors. According to Finance ministry's report in 2012, "real-estate accounts for more than 50 per cent of the current black money market". Demonetization would not only repair internal economic issues, but also tackles funding to

terrorism. Counterfeit money is one of the main sources of funding for activities related to terrorism. Also, corrupted government officials and politicians who have earned in illegal ways will have no other option to put that money into usage.

While the demonetisation initiative by the Central government means further delays in ongoing real estate projects due to the massive cash crunch, it also paves the way for a cleaner and more transparent real estate industry in the times to come. Developers will now look for alternative funding arrangements while end-users or investors will wait for more certainty before making any move. Let's delve deeper into the impact of this change on real estate sector in short to long term.

Short - term Impact

The sudden announcement of demonetization of currencies has resulted in a situation of limited or no cash in the market to be parked in real estate assets. This has subsequently translated into a rapid fall in housing demand across all budget categories in the short term. While a share of this fall in the demand could be attributed to distractions caused by the move, many industry experts discourse that this is a result of a trust deficit in the market. Money has become dearer, leading to cautious spending and minimal transactions.

Liquidity has been severely impacted and this would result in a deflation with limited sales over the next three months. In short, the move has taken the real estate sector by a storm, and it would take time for all stakeholders in the sector – brokers, buyers, owners and developers - to assess its impact on their businesses and decisions. In particular, transactions in the premium housing sector and the residential land category – explicitly dependent on the cash component - would come to a standstill in the short term.

In the short term, buyers and sellers in the middle of transactions might be impacted as cash component would be involved in such deals. There would be irregular delays in the execution of ongoing residential and commercial projects primarily owing to the massive cash crunch and minimal trading in the economy. It has medium term effect on real estate limited money floating in the economy, the inflation rates are expected to fall in the next 2-3 quarters. This, coupled with key policy developments such as speculative repo rate cuts this could be restricted to the affordable housing category.

Mid-term Impact

The heavily cash-dependent secondary market could bear a colossal brunt of the demonetisation move. With the gap between circle rates and market rates bridging, owners would reduce 'ask' prices, impacting the average housing prices across cities. Resale properties would, thus, become cheaper and this could force the primary market, as well. Developers might offer new projects at discounted rates or propose incentives to exert a pull on buyers.

Conclusion

Demonetization of higher denomination notes is a good move but with poor execution. Government would have given alternatives for common people. It would have taken steps to avoid inconvenience to commoners. But this move will surely strengthen India's economy, which in turn benefits to the common people. This move is a fundamental step to curb the circulation of black money and counterfeit notes in the economy. While the short-term impact is negative, developers expect things to return to normal over the course of the fiscal year. Some are hoping

that rate cuts in the coming months would enhance domestic sales.

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DEMONETIZATION IN INDIA: AN OVER VIEW

Dr. S. Meenakshi

*Assistant professor, Department of Economics & Centre for Research in Economics,
The Madura College, (Autonomous), Madurai*

Abstract

Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency. This monetization process has on impact an impact on three sectors of the economy namely Agricultural, Industry and Service sector of the economy. It will push the economy because of flow of more money into the banking system of demonetization. In the long term, the economy will benefit from the reduction of the black money, which will lead to higher tax collection for agriculture, industrial and service sectors, better business environment, less corruption& transparency.

Keywords: *stripping, supply chains, black money*

Introduction

Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit. The opposite of demonetization is demonetization where a form of payment is restored as legal tender.

History of Demonetization

There are multiple reasons why nations demonetize their units of currency. Some reasons include to combat inflation, to combat corruption, and to discourage a cash supply. The government's goal was to eradicate counterfeit currency. In 2016, the Indian government decided to demonetize the 500- and 1000- rupee notes, the two biggest denomination notes. These notes accounted for 86% of the country's cash supply. The government's goal was to eradicate counterfeit currency, fight tax evasion, eliminate black money gotten from money laundering and terrorist financing activities, and promote a cashless economy. By making the larger denomination notes worthless, individuals and entities with huge sums of black money gutted from parallel cash systems were forced to convert the money at a bank which is by law required to acquire tax information from the entity. If the entity could not provide proof of making any tax payments on the cash, tax penalty of 200% of the tax owed was imposed.

In 2015, the Zimbabwean government demonetized the Zimbabwean dollar as a way to combat the country's hyperinflation that was recorded at 231,000,000%. The 3-months process involved expunging the Zimbabwean dollar from the country's financial system and solidifying the US dollar, Botswana pula, and South African rand as

the country's legal tender in a bid to stabilize the economy. Another example demonetization occurred when the nations of the European Monetary Union adopted the euro in 2001. In order to switch to the euro, authorities first fixed exchange rates for the varied national currencies into Euros. When the euro was introduced, the old national currencies were demonetized. However, the old currencies remained convertible into Euros for a while so that a smooth transition through demonetization would be assured.

Impact of Demonetization

In this paper discussed about the impact of demonetization in agriculture, industry and service sector in India. Agriculture is impacted through the input-output channels as well as price and output feedback effects. Sale, transport, marketing and distribution of ready produce to wholesale centers or markets, is dominantly cash-dependent. Disruptions, breaks in the supply chains feed back to farmers as sales fall, increased wastage of perishables, lower revenues that show up as trade dues instead of cash in hand and when credited into bank accounts with limited access affect the sector.

Impact on Agriculture Sector

Cash is the primary mode of transaction in agriculture sector which contributes, 15% to India's total output. Agriculture is impacted through the input-output channels as well as price and output feedback effects. Sale, transport, marketing and distribution of ready produce to wholesale centers or markets, is dominantly cash-dependent. Disruptions, breaks in the supply chains, feedback to farmers as sales fall, increased wastage of perishables, lower revenues that show up as trade dues

instead of cash in hand and when credited into bank accounts with limited access affect the sector.

Currently, maybe of these networks are operating sub-optimally or altogether at a standstill, depending upon location, market links and other item-specific factors. The input side is equally affected as maybe payments/purchases, such as seeds, fertilizers, implements and tools are outright in cash. Borrowing-financing operations of larger farmers and organized producers are also cut off or severely clipped.

How long can the demonetization drag upon agriculture persist? And how soon could the segment rebound? The answer is up in the air at this point. Production patterns and cycles vary and there is little guidance as to when the demonetization dust finally settles. However, and cereals. Production losses in vegetables cannot be recouped and is a permanent loss. Lower cereals, oilseeds output would persist until the next harvest, or about nine months and it is certain that incomes and profit margins will be hurt.

Impact on Industrial Sector

The demonetization effort being led by PM Modi in India is that idea that Rs 500 and Rs 1,000 notes should be delivered do longer legal tender, to be replaced by other notes of different designs and in one case, denominations. The aim is to wash the stock of "black money" out of the economy and get it into the licit, banked and taxable, part of the economy. The microeconomic effects here seem, as I've said before, to be beneficial. There have long been concerns about terror financing through forged notes for example. There's quite obviously substantial tax revenue going uncollected. And perhaps the biggest effect is, as I've said, than large portions of the population feel that the basic system is unfair. They're locked out of that easier world where matters are settled in large amounts of cash, where tax is not paid and where favours are bought.

However, we should also think about the macroeconomic effects here. And that's difficult-because we're not even sure what the sign of the effect will be, positive or negative, let alone the size of it. It's actually possible for this to run either way: Ambo capital, a respected Mumbai-based equity research firm, has officially estimated that the demonetization-driven cash crunch will result in GDP growth crashing to 0.5% in the second half of financial year 2016-17. This means the GDP growth for six months, from October 2016 to March 2017, could decelerate to 0.5% down from 6.4% in the precious six months. Estimated that the demonetization-driven cash

crunch will result in GSP growth in 2017-18 to 5.8% from their earlier estimate of 7.3%.

That's perhaps the case for the prosecution. The disruption to the economy will be such that there will be, possibly, not just any growth in this last quarter of the year but actually a shrinking of the economy.

"The demonetization-driven cash crunch that is playing out in India will paralyze economic activity in the short term. We expect a strong 'formalization effect' to play out as nearly half of the non-tax paying businesses in the informal sector (40% share in GDP) will become unviable and cede market share to their organized sector counterparts. We expect this dynamic to crimp GDP growth in India in FY18as week and hence we have cut out fy18 GDP growth estimate to 5.8 percent Y. Y from 7.3 percent," Ambit economists Ritika Mankar Mukherjee, Sumit Shekhar and Prashant Mittal said in a note.

It's possibility, certainly. But it's of a certainty. For economies are complex things with maybe moving parts. I've already pointed out that the inflow of money into bank accounts will reduce interest rates and that has a stimulatory effect upon economic growth. And we're reducing the budget deficit as some of that black money gets taxed, which will reduce inflation- again beneficial. But there's yet one more thing we need to consider and that's the effect upon the money supply. Which are surprisingly difficulties to work out?

Impact on Service Sector

Effect on Banks

As directed by the Government, the 500 and 1000 Rupee notes, which now cease to be legal tender are to be deposited or exchanged in banks (Subject to certain limits). This will automatically lead to more amounts being deposited in Savings and Current Accounts of commercial banks. This, in turn, will enhance the liquidity position of the banks, which will be later utilized further for lending purposes. However, to the extent that households have held on to these funds for emergency purposes, there are expected to be withdrawals at the second stage. It has effects on online transaction and alternative modes of payment like Debit and Credit Cards and it has soften bank deposit rates. It also have impact on private educational institutions and hospitals on receipts.

Conclusion

Since most of the Rural Economy is based on Cash, it's going to impact the Rural Economy Sector with a sizable magnitude of cash transactions such Real Estate,

Construction, Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency. Jewelers, high end retail, services sectors, travel & tourism are expected to adversely affect. It will push the economy because of flow of more money into the banking system of demonetization. In the long term, the economy will benefit from the reduction of the black money, which will lead to higher tax collection for agriculture, industrial and service sectors, better business environment, less corruption & transparency. It will improve the situation Fiscal Deficit of the Country and hence reduce the fiscal deficit. Interest rates will decline further because of decrease on Inflation as banks are flushed with huge inflows all sectors.

So far, it can be said that this is historical step and should be supported by all. One should look at the bigger picture which will definitely fetch results in the long term. This is what the people have been asking for a long time which has finally happened.

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DEMONETISATION IN INDIA – AN OVERVIEW

Mr.R.Murugan

Assistant Professor, Department of Economics and Centre for Research in Economics.The Madura College, Madurai

Abstract

The biggest problem with India suddenly removing 86% of its currency from circulation without having an adequate supply of new notes ready to take their place is that fact that India is more reliant on cash than almost any other country on earth. India's demonetization scheme was a unilateral initiative that was planned in secret by a small group of insiders. Demonetization initiative was rushed into effect in an attempt to catch the black market off guard — which could potentially lead to a big payday for the central bank if large amounts of illicit cash wasn't redeemed. India hoped that more people could be brought into the fold by using track-able — and taxable — digital financing vehicles, like debit cards and e-wallets. India is currently in the middle of an all out movement to modernize the way things are paid for. New bank accounts are being opened at a heightened rate, e-payment services are seeing rapid growth, cash-on-delivery in e-commerce has crashed, and digitally-focused sectors like the online grocery business have started booming. This paper attempts to explain the Indian economy is moving towards cashless society and also focusses on the merits and demerits of demonetization.

Keywords: digital finance, black market, fake currency.

Introduction

The biggest problem with India suddenly removing 86% of its currency from circulation without having an adequate supply of new notes ready to take their place is that fact that India is more reliant on cash than almost any other country on earth. Suddenly, hundreds of millions of people were left without the means to engage economically, to buy the things they wanted and needed, and myriad businesses were left without a readily available mechanism to receive payment for their goods, to buy supplies, or pay their staff. India's demonetization scheme was a unilateral initiative that was planned in secret by a small group of insiders. Demonetization initiative was rushed into effect in an attempt to catch the black market off guard — which could potentially lead to a big payday for the central bank if large amounts of illicit cash wasn't redeemed. The people of India were left in limbo as the government cancelled the bulk of their currency without providing them with the means to obtain the newly printed notes to replace it. On the surface, this seems as if it was a matter of gross negligence, but there may have been more to it than that. By temporarily turning off the engines which drove the cash economy, India hoped that more people could be brought into the fold by using track-able — and taxable — digital financing vehicles, like debit cards and e-wallets.

India is currently in the middle of an all out movement to modernize the way things are paid for. New bank accounts are being opened at a heightened rate, e-payment services are seeing rapid growth, cash-on-

delivery in e-commerce has crashed, and digitally-focused sectors like the online grocery business have started booming. These changes indicate towards a more inclusive society in the future. This paper attempts to explain the Indian economy is moving towards cashless society and also focusses on the merits and demerits of demonetization.

Importance of Demonetization in India

Recovery of black money was one of the key points of demonetization in the country. The call for demonetization has triggered adverse reactions among a certain portion of the population, the mass has appreciated this step. In the opinion of the experts, this is going to be a pain for forthcoming gain. These experts are of the opinion that this move will prove historical and the first step towards a corruption-free India.

- An attempt to put end to financial corruption.
- An effective way to fight the peril of fake currency notes
- Demonetization will expose those entities that have non-complied with the prevailing tax rules.
- The government will improve the figure of the collected revenues.

Advantages of Demonetization

1. The biggest advantage of demonetization is that it helps the government to track people who are having large sums of unaccounted cash or cash on which no income tax has been paid because many people who

earn black money keep that money as cash in their houses or in some secret place which is very difficult to find and when demonetization happens all that cash is of no value and such people have two options one is to deposit the money in bank accounts and pay taxes on such amount and second option is to let the value of that cash reduced to zero.

2. Since black money is used for illegal activities like terrorism funding, gambling, money laundering and also inflating the price of major assets classes like real estate, gold and due to demonetization all such activities will get reduced for some time and also it will take years for people to generate that amount of black money again and hence in a way it helps in putting an end this circle of people doing illegal activities to earn black money and using that black money to do more illegal activities.
3. Another benefit is that due to people disclosing their income by depositing money in their bank accounts government gets a good amount of tax revenue which can be used by the government towards the betterment of society by providing good infrastructure, hospitals, educational institutions, roads and many facilities for poor and needy sections of society.

Disadvantages of Demonetization

1. The biggest disadvantage of demonetization is that once people in the country gets to know about it than initially for few days there is chaos and frenzy among public as everybody wants to get rid of demonetized notes which in turn sometimes can lead to law and order problem and chaotic situation especially in banks and ATMs which are the only medium to change the old currency units to new currency units.
2. Another disadvantage is that destruction of old currency units and printing of new currency new units involve costs which has to be borne by the government and if the costs are higher than benefits then there is no use of demonetization.
3. Another problem is that majority of times this move is targeted towards black money but if people have not kept cash as their black money and rotated or used that money in other asset classes like real estate,

gold and so on then there is no guarantee that demonetization will help in catching corrupt people.

As one can see from the above that demonetization has both advantages and disadvantages and it is up to the government to see and analyze all the pros and cons and then decide whether it is beneficial to go ahead with demonetization or not.

A move towards a cashless economic framework

Cash transactions were another tool for unscrupulous parties to refrain from paying the necessary taxes and duties. The call for demonetization will make the Indian economy to embrace the plastic money to a higher extent. This will bring more transactions in the market under the supervision of the government. Even if the call of demonetization has created some sorts of troubles in the course of daily life, you cannot overrule the point that it is just about a pain to incur gain. This call for demonetization is the most important reformative step that has been taken since independence. It is expected that in due course of time it will bring manifold holistic and sustainable benefits to the nation.

Conclusion

Central government's recent decision to demonetise the high value currency is one of the major step towards the eradication of black money in India. The demonetization drive will affect some extent to the general public, but for larger interest of the country such decisions are inevitable. Also it may not curb black money fully, but definitely it has major impact in curbing black money to large extent.

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IMPACT OF DEMONETISATION ON INDIAN ECONOMY

S.Sharmeela Banu

Assistant professor, Department of Economics & Centre for Research in Economics, The Madura College (Autonomous), Madurai

Abstract

This article has made an attempt to assess how the tool of Demonetization can be used to eradicate parallel economy. Demonetization is one of the big steps initiated by Government in addressing the various issues like black money, counterfeit currency, corruption, terrorism etc. History of demonetization in India and around the world is addressed. Lesson from historically demonetization guides us how to redefine economy of country by overcoming the earlier causes for failure. Demonetization obviously brings many inconveniences to common people but it is for only short term. However the long term benefits of demonetization overrides the short term challenges. Consumption items which had large element of cash dealing involved may see lowers demand. Real estate and allied sectors may see near term to medium term negative impact. This may also lead to corporate earnings getting impacted as a large part of the old currency gets extinguished and takes time for fresh money to come into circulation.

Key words: black money, counterfeit currency, corruption, terrorism

Introduction

It is a transformational decision taken by the government to ban Rs.500 and Rs.1000 notes from circulation in the market. The decision was taken to minimize the black money and corruption, fake currency circulation and terror financing. India has amongst the highest levels of currency in circulation at 13% of GDP. The government came up with the following justifications for this move:-

1. Disrupting proliferation of counterfeit notes.
2. Making cash hoarded from undeclared sources of income (black money) worthless.
4. Disrupting drug trade or terrorism activities which are mainly funded by black money.
5. Encouraging cashless transactions.

Historical Facts About Demonetization in India

Significant instances of demonetization in India are:

- On 12th January 1946, Rs. 500, Rs. 1,000 and Rs. 10,000 notes were declared invalid as legal tender.
- New notes of Rs. 1000, Rs. 5000 and Rs. 10,000 came into economy in 1954.
- On 16th January 1978, the government demonetized banknotes of Rs. 1000, 5000 and 10000.
- RBI introduced a new banknote of Rs. 500 into the economy in 1987 to control inflation.
- On 8th November 2016, the old banknotes of Rs. 500 and Rs. 1000 were barred from being legal tender and new notes of Rs. 2000 were soon introduced.

Other Countries where demonization has taken place previously

Many countries have experimented with the process of demonetization in the past. Some countries benefitted

tremendously from the move while some terribly failed at it. Here is a list of some countries that have implemented the policy of demonetization:

- ❖ France, US (1969), Britain (1971), Ghana (1982), Myanmar (1987), Nigeria (1984), Zaire (1990), Congo (1990), Soviet Union (1991), Australia (1996), Zimbabwe (2010), North Korea (2010), Pakistan (2015).

Pros of Demonetisation

One of the biggest benefits of this move is that it is going to drastically affect the corrupt practices. People who are holding black money in cash will not be able to exchange much as they would be in a fear of getting penalised and prosecuted by the authorities. Enemies of the country which are involved in counterfeit currency and terrorism will not be able to continue it further for quite some time at least. The smuggling of arms and dealing with the terrorist will not sustain further as all of the money will be on record now.

The banking system will improve as it will slowly head towards a cashless society. Cashless society will increase credit access and financial inclusion. The existing white money of people will be known to the government and it will remain with banks so that it can be put on loan, and interest can be generated from it (though interest rates would fall) with a corresponding fall in Inflation. Further Banking System will get a boost, as more than Rs 7-8 lakh crore base money (new legal money) will enter the system. However, it needs to be seen how much money actually remains in the system, once the cash withdrawal limits are eased.

It will reduce the risk and cost of cash handling as soft money is safer than hard money. It will also reduce government liability. Since every note is a liability for the

government, the old currency will become worthless for those people, who choose not to disclose their income. Thus, this will extinguish government's liability to that extent. It is expected approximately Rs 5 lakh crore may come to the government in the form of extinguished RBI liability, taxes and penalties. This amount is enough to take care of India's entire fiscal deficit for one year or more. It will also reduce tax avoidance. Whatever money will be deposited or exchanged, authorities will keep a track of it and they will be extra cautious in this period. Dealing in this period in sectors like jewellery and real estate will be on radar and those entering into Loan transactions may also undergo tax scrutiny.

Search and Seizure activities of the IT Department will also rise to curb such malpractices. Limits have already been prescribed for reporting to the IT Department those bank accounts in which excess cash deposits are being made in this 50-day window (Rs 2.5 lakh in case of individuals and Rs 12.5 lakh in case of firms). Importantly, in the longer run, tax and interest rates on loans are expected to come down as higher income tax collections arising from better compliance would offer scope to reduce rates over the long term. This, in turn, will drive up disposable income. This can give a positive impact on consumption demand in long term.

Cons of Demonetisation

The liquidity squeeze caused by demonetization will be negative across sectors with high level of cash transactions. Real estate, jewellery, retailing, restaurants, logistics, consumer durables and luxury brands, cement and some segments in retail/SME lending space will be facing short term instability. Those companies with high level of debt will face more pressure and can face loan defaults. Secondly, there will be added replacement costs of currency. We cannot ignore the increased cost of operating ATMs need to be refilled more often and also it will be a huge burden on banks. Initially, it is very difficult to create a cashless society as more than 50 percent of Indian population is not well versed with card transactions. Also for these initial months, it will be very difficult to make cash transactions of a higher amount. But the government is taking steps to improve liquidity into the system and reduce inconvenience as much as possible.

Further, the penal provisions are hefty enough to ensure that corrupt practices will find it hard to take roots again. Despite certain short term troubles, demonetization is certainly

going to give a boost to the Indian economy in the long run. As of now, all of us should stand and support this bold move of our Prime Minister and help those needy, aroundus.

Conclusion

To conclude, the fight against corruption, terror funding, counterfeit currency and the black economy should result in,

- Increased systemic liquidity leading to higher demand for bonds
- Rate reductions due to lower inflation and inflationary expectations
- Stable to appreciating INR as Current account deficit improves due to lower demand for gold
- Higher tax to GDP
- RBI freeing up balance sheet as liability declines
- Government would be able to bring down its outstanding debt liability and improve fiscal deficit
- Immediate near term impact – decline in cash transactions may lead to reduction in consumption demand leading to some decline in the GDP growth.
- In the immediate term, the reduced ability of the unorganized sector to deal in cash would impact the demand. Consumption items which had large element of cash dealing involved may see lower demand. Real estate and allied sectors may see near term to medium term negative impact. This may also lead to corporate earnings getting impacted as a large part of the old currency gets extinguished and takes time for fresh money to come into circulation.

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DEMONETISATION IN INDIAN AGRICULTURAL

Dr. S. Kathikeyan

*Assistant Professor Department of Economics & Centre for Research in Economics,
The Madura College, Madurai*

Dr. M. Satheesh Pandian

*Assistant Professor Department of Economics & Centre for Research in Economics,
The Madura College, Madurai*

Abstract

As Indians struggle to come to grip with the second demonetisation of currency since independence (the previous one was in 1978 and restricted to Rs1,000, Rs5,000 and Rs10,000 notes), the scale and scope of this action is significantly bigger. The demonetization move seems to have widespread support from ordinary people; however there are pockets of hardship despite attempts by the government to exempt crucial needs such as hospitals, tolls, chemists, crematoria and petrol pumps. Let analyze the sectors that will be most affected by demonetization because of the high level of cash spending. Domestically, there could be some turmoil as the effect will be disproportionately felt by the lower and upper income classes," the Deloitte report said. Keyword: Black Money, Demonetization, Penalized, GDP, populace

Introduction

As Indians struggle to come to grip with the second de-monetisation of currency since independence (the previous one was in 1978 and restricted to Rs1,000, Rs5,000 and Rs10,000 notes), the scale and scope of this action is significantly bigger. The demonetisation move seems to have widespread support from ordinary people; however there are pockets of hardship despite attempts by the government to exempt crucial needs such as hospitals, tolls, chemists, crematoria and petrol pumps. Let analyse the sectors that will be most affected by de-monetisation because of the high level of cash spending. On 8 November 2016, the Government of India announced the demonetisation of all Rs.500 (US\$7.40) and Rs. 1,000 (US\$15) banknotes of the Mahatma Gandhi Series. The government claimed that the action would curtail the shadow economy and crack down on the use of illicit and counterfeit cash to fund illegal activity and terrorism. The sudden nature of the announcement and the prolonged cash shortages in the weeks that followed created significant disruption throughout the economy, threatening economic output. The move was heavily criticized as poorly planned and unfair, and was met with protests, litigation, and strikes. Initially, the move received support from several bankers as well as from some international commentators. It was heavily criticised by members of the opposition parties, leading to debates in both houses of parliament and triggering organised protests against the government in several places across India. The move is

considered to have reduced the country's GDP and industrial production. As the cash shortages grew in the weeks following the move, the demonetization was heavily criticised by prominent economists and by world media. Domestically, there could be some turmoil as the effect will be disproportionately felt by the lower and upper income classes," the Deloitte report said.

Background

The Indian government had demonetised bank notes on two prior occasions once in 1946 and then again in 1978 and in both cases, the goal was to combat tax evasion by "black money" held outside the formal economic system. In 1946, the pre-independence government hoped demonetisation would penalize Indian businesses that were concealing the fortunes amassed supplying the Allies in World War II. In 1978, the Janata Party coalition government demonetised banknotes of 100, 500 and 1000 rupees, again in the hopes of curbing counterfeit money and black money.

Sector-wise contribution of GDP of India

Indian economy is classified in three sectors — Agriculture and allied, Industry and Services. Agriculture sector includes Agriculture (Agriculture proper & Livestock), Forestry & Logging, Fishing and related activities. Industry includes Manufacturing (Registered & Unregistered), Electricity, Gas, Water supply, and Construction. Services sector includes Trade, repair, hotels and restaurants, Transport, storage, communication & services related to broadcasting, Financial, real estate &

prof. servs, Community, social & pers. Servs. Services sector is the largest sector of India. Gross Value Added (GVA) at current prices for Services sector is estimated at 61.18 lakh crore INR in 2014-15. Services sector accounts for 52.97% of total India's GVA of 115.50 lakh crore Indian rupees. With GVA of Rs. 34.67 lakh crore, Industry sector contributes 30.02%. While, Agriculture and allied sector shares 17.01% and GVA is around of 19.65 lakh crore INR. At 2011-12 prices, composition of Agriculture & allied, Industry, and Services sector are 16.11%, 31.37%, and 52.52%, respectively. According to CIA Factbook sector wise Indian GDP composition in 2014 are as follows : Agriculture (17.9%), Industry (24.2%) and Services (57.9%). Total production of agriculture sector is \$366.92 billion. India is 2nd larger producer of agriculture product. India accounts for 7.68 percent of total global agricultural output. GDP of Industry sector is \$495.62 billion and world rank is 12. In Services sector, India world rank is 11 and GDP is \$1185.79 billion. Contribution of Agriculture sector in Indian economy is much higher than world's average (6.1%). Contribution of Industry and Services sector is lower than world's average 30.5% for Industry sector and 63.5% for Services sector. At previous methodology, composition of Agriculture & allied, Industry, and Services sector was 51.81%, 14.16%, and 33.25%, respectively at current prices in 1950-51. Share of Agriculture & allied sector has declined at 18.20% in 2013-14. Share of Services sector has improved to 57.03%. Share of Industry sector has also increased to 24.77%

Demonetisation will hit agriculture, informal sector workers the most: Study

The demonetisation of Rs 500 and Rs 1,000 notes will hurt agriculture, informal sector workers — about 482 million people who earn cash incomes — and disrupt India's consumption patterns for at least the next quarter, according to an assessment released last week by Deloitte, an international consulting firm. In contrast, sectors like e-commerce and payment banks, payment gateways are set to gain as transactions using cashless methods will increase over the coming months, the Deloitte report said, emphasising that "the long-term outlook remains positive". The prime minister — who had promised working ATMs by day three — pleaded for 50 days to set the chaos right, and his government extended the validity of the old notes in select transactions for another 10 days. While the short term impacts will be pronounced on the brick-and-mortar retail sector like kirana shops, vegetable and fruit vendors, long-term negative impacts on the real-estate sector are possible, the Deloitte report said. "Overall, a likely negative impact on disposable

income is expected along with disruption in the consumption patterns of the general populace," said the report, which called demonetisation "arguably one of the most significant reform measures in its tenure" and "an expeditious move to boldly counter the black money and parallel economy". Others are not as optimistic. Demonetisation has perhaps "penalised" the entire informal sector and damaged it permanently", especially the informal financial sector, which could account for a fourth of bank lending, or 26 percent of GDP, wrote Pronab Sen, country director of the India Central Programme of the International Growth Centre, a think tank. "There is no doubt whatsoever that Modi has pulled off a major political and publicity coup and substantially enhanced his reputation as a muscular leader, but surely somebody needs to ask: at what price?" wrote Sen on 14 November, 2016 in Ideas for India, an economics and policy portal. Rs 14 lakh crore — or \$217 billion, 86 percent of the value of Indian currency then in circulation — became useless from midnight of 8 November, 2016, part of the government's crackdown on black, or unaccounted, money, which accounts for about a fifth of the economy, as *India Spend* reported on 8 November, 2016.

Agriculture, under stress for two years, was forecast to grow 4 percent

Agricultural growth in India contracted 0.2 percent in 2014-15 and grew no more than 1.2 percent in 2015-16, largely because of back-to-back droughts. Agriculture was expected to grow at 4 percent this year according to this October 2016 CRISIL report, but demonetisation is likely to dent that forecast. India is currently in the midst of the winter sowing season, but farmers are reported to be running out of cash to buy seeds.

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DEMONETISATION AND INDIAN ECONOMY

S. Sureshkannan

Assistant Professor in Economics, The Madura College, Madurai

Abstract

Demonetization would arise if only a part of the currency deposited in the banks is returned to circulation as cash. This change, if it is executed, would dramatically change the economic environment in the country by forcing agents to move from using cash as a medium of exchange to using cash substitutes. This appears to be a real possibility given that the Finance Minister as well as the Governor of the Reserve Bank of India have repeatedly emphasized that agents should be moving to the use of cashless medium where there are no problems in comparison to the cash based medium.

Key-words: economic environment, medium of exchange, cashless

Introduction

The government has implemented a major change in the economic environment by demonetising the high value currency notes – of Rs 500 and Rs 1000 denomination. These ceased to be legal tender from the midnight of 8th of November 2016. People have been given upto December 30, 2016 to exchange the notes held by them.¹ The proposal by the government involves the elimination of these existing notes from circulation and a gradual replacement with a new set of notes. In the short term, it is intended that the cash in circulation would be substantially squeezed since there are limits placed on the amount that individuals can withdraw. In the months to come, this squeeze may be relaxed somewhat. The reasons offered for demonetisation are two-fold: one, to control counterfeit notes that could be contributing to terrorism, in other words a national security concern and second, to undermine or eliminate the “black economy”.

Effects of demonetization

Turning to the effects of demonetisation, the first major and sustained effect of demonetisation would follow from the extent to which the currency is extinguished and what this currency was being used for. It is being assumed that all currency which will potentially be extinguished would be currency being used as a store of value in the first and second category of transactions in the table above. If this assumption is correct, then the impact of extinguishing this currency would be limited.

On the other hand, if the currency is used for any of the other transactions in the economy, either as a store of value or more importantly, as a medium of exchange, then the impact on the economy and the agents in the economy could be substantial. If, for instance, the extinguished cash was used as a medium of exchange in financing

unaccounted income generation or income in the informal sector, demonetisation would result in these activities closing down and a corresponding reduction in the incomes and employment associated with these activities. The spillover effect would be felt by the organised sector as well since the consumption from the incomes generated would extend to the formal sector as well. The next question to ask would be: would these activities/agents choose to come within the folds of the formal sector as a result of the changed economic environment or would they remain outside or worsen the activities and would be extinguished along with the losses generated from the cash that was extinguished. The second change as discussed above, from demonetisation would arise if only a part of the currency deposited in the banks is returned to circulation as cash. This change, if it is executed, would dramatically change the economic environment in the country by forcing agents to move from using cash as a medium of exchange to using cash substitutes. This appears to be a real possibility given that the Finance Minister as well as the Governor of the Reserve Bank of India have repeatedly emphasised that agents should be moving to the use of cashless medium where there are no problems in comparison to the cash based medium. The effect of this change too would be felt differently across the different segments of the economy – agents operating within the formal sector and agents who are familiar with the modern technology would be placed on different footing compared to other agents who need to make the transition. In what follows, an attempt is made to present a discussion of the likely effects classified into very short term as in the next two months, the short term as in a six months to a year and the rest as medium term. Within these, an attempt is made to distinguish between the effects if there is full remonetisation to the extent of

deposits made in banks and a scenario of partial remonetisation.

Transition Issues

There are a number of transition issues that need to be managed for this transition to be effective:

1. **Infrastructure Issues:** There is need for a significant upgrade of the banking system as well as in the telecom infrastructure that would provide the backbone for digital transactions. For people to be able to transact at any time and place as well as for them to consider it a reliable medium of exchange, it is important that not only the banking system is upgraded to ensure that transactions can be completed without a hitch, but the supporting infrastructure too is up to the mark. For instance, in many parts of the economy, there is limited and intermittent supply of electricity as well as mobile connectivity. In these areas, it would be difficult to expect people to shift to electronic medium of exchange.
2. **Consumer behaviour Issues:** Apart from the technological issues, there is a behavioural change that is being expected in people from using cash as a medium of exchange to using other cash substitutes both for making payments and receiving payments. This transition requires individuals to make two changes in their behaviour: one, agents need to move from tangible means which can be seen and felt to forms which are less tangible or not tangible, and second, they have to learn to rely on technologically advanced tools to undertake regular day to day operations. The latter requires agents to be educated to the extent of comprehending the content of transactions. If this transition is not suitably managed, agents might be tempted to move to non-official cash substitutes.
3. **Accessibility in language:** In addition to all of the above, most of the banks and the mobile instruments for transaction are currently adapted to a single to two languages. If the bulk of the population of this country needs to come on board, it might be important to make these facilities available in a myriad of Indian languages to ensure that the user can comprehend the transaction that they are entering into.
4. **Transition issues for banking sector:** There are multiple issues here.

The banks too might have a transition issue to deal with. Banks would have a model of the fraction of deposits

that they can safely lend without an excessive risk of withdrawal of the amount. This is important since, while banks can borrow money from the call money market, the costs of such borrowings can be large. These models, however, might need to be altered in the new regime since the character of the new deposits that come into the bank would be different from the pre-existing deposits.

In the latter, while a fraction of the deposits would be for transactional purposes – e.g. salary earners – another fraction would be depositing only savings into the account. By eliminating high value currency notes, these agents who were operating through cash, would now have to move to non-cash instruments and hence, the balances in their accounts would not be savings but transaction values which will be retained in the account for shorter durations of time. The banks therefore would need to re-model their decisions on how much of the deposits can be lent out and for what duration. It is, for instance possible, that a larger proportion of the deposits would be retained for short-term lending and can even be dedicated to the call money market.

Second, while 1/reserve ratio defines the potential maximum amount of credit that can be generated in the economy, the actual credit generation would be defined both by the demand for credit and the extent to which cash intervenes in the functioning of the economy. For instance, if people who receive credit from the bank make payments through cheques alone and they in turn make payments through cheques, then the potential credit creation can be realised. However, if on receipt of payment, the agent withdraws the money to cash and makes payments, only a fraction of the credit/deposit will return to the banking system. Thus, larger is the extent to which cash is used as a means of transacting, smaller is the total credit that can be generated. With a withdrawal of cash from circulation, the deposits will continue to remain in the bank, it would merely shift from account to account or from bank to bank. Thus, even on the earlier deposits, the amount of credit that can be generated would be larger. This is another reason why the banks would need to remodel their investment decisions corresponding to a given level of deposits.

Impact on Macro Variables

Apart from the transition issues faced by banks, in judging the impact on the economy, it is important to differentiate between the two changes that the demonetisation can bring about in money supply. The first change, i.e., cash being extinguished, to the extent it was being used as medium of exchange, would result in a

compression in incomes, employment and consumption in the economy.

On the other hand, the effect of the second change, i.e., cash being only partially replaced in the system would have the opposite effects of expansion in potential credit creation. The potential credit creation would translate into actual credit creation provided there is sufficient demand for credit. If the demand for credit in the economy is large enough, the potential credit can be realised. Of the credit created, other things remaining the same, it can be expected that at least a part of the credit, will be for productive purposes. This would mean expansion in investment in the economy and subsequently an increase in GDP and employment.

If there is increase in investment in the economy, the demand for capital goods rises. If output can expand in this sector, there would be an expansion in the income generation and in demand for goods and services. Sectors that are not operating with excess capacity cannot meet the expanded demand with increased output, leading to increase in prices. This would hold for agriculture as well as any industry with long gestation lags to investment. In other words, in the short run there is a possibility of increase in inflation.

MSME is one segment of the economy which is credit constrained¹⁵. Expansion in the potential credit in the economy could expand the credit available to this segment of the economy which is more employment intensive than the organised manufacturing. In other words, if the access

to credit for this segment can be improved, it can generate many positive spin-offs.

Conclusion

The demonetization undertaken by the government is a large shock to the economy. The impact of the shock in the medium term is a function of how much of the currency will be replaced at the end of the replacement process and the extent to which currency in circulation is extinguished. While it has been argued that the cash that would be extinguished would be "black money" and hence, should be rightfully extinguished to set right the perverse incentive structure in the economy, this argument is based on impressions rather than on facts. While the facts are not available to anybody, it would be foolhardy to argue that this is the only possibility.

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DEMONETIZATION AND COMPLETE FINANCIAL INCLUSION

Dr.S.Karthikeyan

*Assistant Professor, Department of Economics and Centre for Research in Economics,
The Madura College (Autonomous), Madurai*

R.Uttami Priya

*Research Scholar (Full-Time), Department of Economics and Centre for Research in Economics,
The Madura College (Autonomous), Madurai*

Abstract

The world is watching India with high expectations as India is poised to become economic leader of the region. It is an imperative that India becomes shock proof to the financial crisis and other threats. In this backdrop India has taken seriously the cause of financial inclusion years ago. However, the results were not encouraging. However, the current times are more pressing. This need of the hour has to be dealt with a serious action towards financial inclusion. To become the strong economy, India needs to eradicate black money, corruption and financial crimes. In this technological era and with largest youth population, this is the best time to strike the chord of second financial reforms. The hurdles are lack of financial inclusion and financial illiteracy. It is very ironical that, though we have largest tech save youth population and growing literacy, many are still financially excluded. This paper will take up the issues related to demonetization and its linkage to complete financial inclusion. The paper also discusses the economic imperatives of demonetization old high denomination currency notes in India and its aftermath.

Keywords: Complete Financial Inclusion, Demonetization, Economy, India.

Introduction

Financial inclusion is an essential prerequisite for the uniform economic development and for achieving greater economic and social equity but the presence of unaccounted money and parallel economy, making it impossible. It is necessary to bring the entire money within the framework of the law. Due to ignorance, lack of financial literacy and economic surveillance, India could not achieve 100% financial inclusion as planned in the past. This is a deterrent for the economic hegemony in the region. Government is relentlessly pursuing the matter of black money. There was a need for radical and strict action for complete inclusion. November 8, 2016 demonetization announcement is to be seen in this perspective. The year will be etched in the annals of the Indian history like year 1991 for its long standing impact owing to demonetization.

Need for Financial Inclusion

In India financial services are used only by a section of the population due to illiteracy and other reasons. The excluded regions are rural, poor regions and also those living in harsh climatic conditions where it is difficult to provide these financial services. Hence, financial exclusion leads to non-accessibility, non-affordability and non-availability of financial products. Limited access to funds in an underdeveloped financial system restricts the availability of their own funds to individuals and also leads

to high cost credit from informal sources such as moneylenders. Due to lack of access to a bank account and remittance facilities, the individual pays higher charges for basic financial transactions. Absence of bank account also leads to security threat and loss of interest by holding cash. All these impose real costs on individuals. Prolonged and persistent deprivation of banking services to a large segment of the population leads to a decline in investment and has the potential to fuel social tensions causing social exclusion. Thus, financial inclusion is essential for accelerated economic growth of the country.

State of Financial Inclusion

Compared to the developed world, the coverage of India's financial services is abysmally low. According to the information available with the Reserve Bank of India, about 5.89 crores no-frill accounts, with and without value-added features, have been opened until November 23, 2016 of which about two-third are with the public sector and one-third with the private sector banks. Though the RBI promoted no-frills savings bank account under Jan Dhan Yojana, had all the potential to revolutionize India's rural agricultural economy, as well as usher in the banking habit amongst a large number of the less privileged population. However, considering to the vast multitude of the Indian population the number of accounts opened is not

encouraging for the cause of complete financial inclusion. After current demonetization drive the financial inclusion is being carried out in various ways as people are seeking respite from the currency shortage. People are being forced to use electronic banking services and digital platforms. Banks have been pushing the cause of complete financial inclusion.

Facts of Demonetization

November 8, 2016 demonetization announcement involved the task of replacing more than 22 billion pieces of Rs.500 and Rs.1000 notes for 1.3 billion citizens through 1.3 lakh branch outlets was a herculean task. Historically, nowhere in the world has a similar exercise been undertaken at this massive scale. It is a reaping time for the banks that made considerable investments on digitization of banking services. The alternate platforms – cards, internet banking, mobile banking, PoS terminals - have further gained momentum post demonetization announcement. An average daily debit card transaction has almost doubled and demand for PoS machine installations has increased 2-3 times. Due to the prevailing economic scenario India witnessed a surge in digital transactions and mobile transactions. This development is to be seen instrumental in achieving complete financial inclusion.

Rationale of Demonetization

India is swiftly increasing in terms of growth and standing in No.1 position in terms of growth but ranked 76 in Global Corruption Perception Ranking. It is no secret that the evil of corruption and black money also have grown beyond the control of the system. Infact they are influencing the system and weakening the efforts in financial inclusion. Also, existence of huge number of high value currency notes has created conducive environment for hoarding black money, corruption in business and politics and funding of terrorism by hostile countries. Therefore demonetization was on the anvil as one of the major steps to make economy free of these evils. The primary steps were already taken during the last two years viz., Aadhar seeding to gas and other services making PAN compulsory for high value transactions, Prime Minister's Jan Dhan Yojana of no frills accounts and recent Income Disclosure Scheme. These policies have been adopted under the recommendation and pressure of the experts and the need to eradicate economic evils. These efforts directly or indirectly will culminate into complete financial inclusion.

Effects of Demonetization

The alternate platforms – cards, internet banking, mobile banking, PoS terminals have further gained momentum post the demonetization announcement. However, there is heavy disruption to the business due to which growth expectations have reduced. International rating agency Fitch has lowered India's GDP growth to 6.9% for the financial year 2017.

The following are the other effects:

- It may cause deflation in the market as people who have earned money through illegal
- Ways would be afraid to declare the money in fear of prosecution due to the illegitimacy of the income.
- It has already lead to reduction of money circulation in the economy and this may result in deflation
- A lot of cash which are legally earned will be deposited in the banks and now the banks
- With more deposits will be able to do more lending and the rate of lending may come down
- Accessibility of loans will become easier and as interest rates reduce economic activity will be boosted.

Role of Banks in Handling Demonetization

Bank has led from the front in successfully reaching out to the customers in their banking transactions, be it waiver of charges or extended business hours into late evenings or to go out of their way in supporting senior citizens and women customers as well as noncustomers.

Demonetization as a Tool of Financial Inclusion

Demonetization has become blessing in disguise to the cause of financial inclusion. It is resulted in rapid banking education to the vast multitude of unbanked and semi-banked population otherwise impossible. Though demonetization has halted all regular banking business operations and loss of revenues temporarily, it has not gone waste and served the purpose of financial inclusion.

Conclusion

The rewards of demonetization are much encouraging and the demonetization is in the long term interest of the country. Government need to ensure that there will be a smooth flow of currency exchanges. Demonetization will have a massive impact on parallel economy. The current demonetization initiative by the Government of India will take Indians ten steps ahead. Though it is has given temporary pains, it taught financial lessons. It will also impact corruption, elections and terrorism. It is a reaping

time for the banks that made considerable investments on digitization of banking services. The cashless and transparent mechanism has gained momentum post demonetization. It has led to increased financial inclusion and this momentum should be continued till India achieves complete financial inclusion.

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DEMONETIZATION IMPACT ON WOMEN WELFARE

Mrs.S.Geetha

Ph. D. Research Scholar, Research Center of Economics, Fatima College, Madurai

Abstract

Demonetization is the act of stripping a Currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be tired and replaced with a new currency unit. There are multiple reasons why nations demonetized their local units of currency. Some reasons include to combat corruption, and to discourage a cash system. The process of demonetization involves either introducing new notes or coins of the Same currency or completely replacing the old currency with new currency.

Keywords: *correction model, welfare, empowerment*

Demonetization

Demonetization exercise is not the model of development but the One for correction. "Nothing would have Changed if this measure was not taken. The demonetization has health with a serious problem of the country which was long due and necessary ". Farmers commit suicide due to loss of dignity. Money is not being circulated properly and not trickling down. If money is not circulated well what else can farmer's do here the impact of demonetization consider to be the economic crisis on women's economic empowerment. Many women are expected to lose their jobs. Decrease in earnings among self employed women workers in trade agriculture and other sectors. Increase in the amount of unpaid work leads limited access to health and other support services.

Demonetization and welfare

While evaluating demonetization It is associated economic losses to the public. The impact on the economy has not only been but highly unequal. Those with bank accounts and credit cards were merely is convenience. Those who earn and spend mostly or entirely in cash were be the poor. Banks still account for only a little credit extended in the country. The balance Comes from money lenders who deal in Cash that credit collapsed. In terms of value the proportion of transactions that has been digitized is also about the Same. - the lion' s share of the economy is now paralysed. The fewer are the transactions in the economy, the lower is the income they generate. The is now a consensus among economists and Bankers therefore that the GDP will shrink in the fiscal year. Casual labour markets mostly in the construction do not have the cash with which to pay them. The most severe crunch has

taken place in the rural areas. Where nearly all transactions are in cash and there are far fewer banks. The farmers all over country have minimised their Purchases of non - essential goods. During all this time spending will remain constrained so income growth will fall too.In a country where many in the poor and middle class still make day -to-day transactions in cash.

Women and demonetization

Women are the major change makers on the ground in the developing world. Demonetization be the one of the Economic crisis which affects the women. They were left without employment to access paid work. Women were forced to travel much farther away and had in sufficient options for child care. The girl's educational needs are often neglected and women may be compelled to choose between their financial and care giving responsibilities for their families making women less able to access paid work. Like road side vegetable sellers , Sellers in tea shops, small stores selling Groceries, small farmers, daily wage labourers and traders are suffering because of lack of proper planning in this demonetization system the problem is that investment is not taking place in the economy and the rate of growth of capital formation is down.

The only way to bring this up is to divert more funds in to investments which will happen when the cost of capital comes down Demonetization caused sudden Breakdowns in commercial economic System of the country. Trade across all facets of the economy was disrupted Cash _ centric sectors like agriculture fishing and the voluminous informal market were virtually shutdown. With Many business and livelihoods going under completely not well. The economic impact of millions of people standing in line

for hours to exchange or deposit canceled bank notes rather than working and doing business.

Welfare loss for the currency using population

Women the most active Segments of the population who constitute the base of the pyramid Uses currency to meet their transactions The daily wage earners other labourers small traders who reside out of the formal economy uses cash frequently. These sections will lose income in the absence of liquid cash. Cash stringency will compel firms to reduce labour cost and thus reduces income to the poor working class.

Impact on daily life

There is a growing divergence between official and effective money supply. The amount that was available for carrying out daily financial transactions and affects the overall demand for goods and services. A drop in consumption would push growth lower unless compensated by gains in fiscal spending and trade gains.

Conclusion

Demonetization as a cleaning exercise may produce several good things in the economy. At the same time it creates unavoidable income and welfare losses to the poor sections of the society who gets income based on their daily work and those who doesn't have digital transaction culture. Overall economic activities will be dampened in the short term. But the Immeasurable benefits of having more transparency and reduced volume of black money activities can be pointed as long term benefits.

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IMPACT OF DEMONETIZATION OF BIG CURRENCY IN INDIAN ECONOMY

Ms. A. Divya Priya

Ph. D. Research Scholar, Research Center of Economics, Fatima College, Madurai

Abstract

The notes were demonetized at midnight on November 8. The move aimed to curb black money in the financial system. Many countries have experimented with the process of demonetization in the past. Some countries benefitted tremendously from the move while some terribly failed at it. Here is a list of some countries that have implemented the policy of demonetization. Overall economic activities will be dampened in the short term. But the immeasurable benefits of having more transparency and reduced volume of black money activities can be pointed as long term benefits.

Key words: financial system, black money, corruption, counterfeit

Introduction

On the evening of 8th November 2016, the Prime Minister of India announced one of the boldest moves in the history of India's socio-economic scene – demonetization of old Rs. 500 notes and Rs. 1000. Soon after, new notes of Rs. 500 and Rs. 2000 notes were pumped into the economy. The notes were demonetized at midnight on November 8. The move aimed to curb black money in the financial system.

Countries which experienced on demonetization

Many countries have experimented with the process of demonetization in the past. Some countries benefitted tremendously from the move while some terribly failed at it. Here is a list of some countries that have implemented the policy of demonetization: France• US (1969)• Britain (1971)• Ghana (1982)• Myanmar (1987) Nigeria (1984)• Zaire (1990)• Congo (1990)• Soviet Union (1991)• Australia (1996)• Zimbabwe• North Korea (2010)• Pakistan (2015)

Reasons for demonetization

Corruption and black money are the major obstacles in our country. It is weakening the efforts to remove poverty. Our country is rapidly increasing in terms of growth and we are in No.1 position in terms of growth but we are ranked 76 in Global Corruption Perception ranking. It clearly shows how corruption and black money have spread their tentacles. The main aim of demonetization to control the black money. According to the RBI's (Reserve Bank of India) Annual Report for April 2015 to March 2016, the value of the currency notes at the end of March 2016 was 16.42 trillion Indian rupees. The 500 rupee and 1,000 rupee currency notes formed 86.4% of the value. In one

stroke, the government removed 86.4% of the currency in circulation by value. In terms of volume, the currency notes of these two denominations formed 24.4% of a total 90.27 billion pieces. Also, RBI data showed that as of March 2016, 632,926 currency notes were counterfeit—known as an FICN (Fake Indian Currency Note). As a proportion of NIC (Notes in Circulation), the 1,000 rupee and 500 rupee notes were the highest. Nullifying these FICNs was also part of the demonetization move. Terrorism is a frightening threat, but who funds these terrorists? Our enemies they use the fake currency to sponsor terrorists.

Impacts of Demonetization

Demonetization technically is a liquidity shock; a sudden stop in terms of currency availability. It creates a situation where lack of currencies jams consumption, investment, production, employment etc. In this context, short term/long term/, consumption/investment, welfare/growth impacts on Indian economy. Following are the main impacts.

Impact on liquidity cash ratio

Demonetization affects the economy through the liquidity side. Its effect on nearly 86% of currency value in circulation was withdrawn without replacing bulk of it. As a result of the withdrawal of Rs 500 and Rs 1000 notes, there occurred huge gap in the currency composition as after Rs 100; Rs 2000 is the only denomination. Absence of intermediate denominations like Rs500 and Rs 1000 will reduce the utility of Rs 2000. Effectively, this will make Rs 2000 less useful as a transaction currency though it can be a store value denomination. Demonetization is not a big disaster like global banking sector crisis of 2007 but at the

same time, it will act as a liquidity shock that disturbs economic activities.

Liquidity crunch of short term effect

Liquidity shock means people are not able to get sufficient volume of popular denomination especially Rs 500. This currency unit is the favorable denomination in daily life. It constituted to nearly 49% of the previous currency supply in terms of value. Higher the time required to resupply Rs 500 notes, higher will be the duration of the liquidity crunch. Current reports indicate that all security printing presses can print only 2000 million units of RS 500 notes by the end of this year. Nearly 16000 millions on Rs 500 notes were in circulation as on end March 2016. Some portion of this was filled by the new Rs 2000 notes. Towards end of March approximately 10000 million units will be printed and replaced. All these indicate that currency crunch will be in our economy for the next four months.

Welfare loss for the currency using people

Most active segments of the population who constitute the 'base of the pyramid' use currency to meet their transactions. The daily wage earners, other labourers, small traders etc. who reside out of the formal economy uses cash frequently. These sections will lose income in the absence of liquid cash. Cash stringency will compel firms to reduce labour cost and thus reduces income to the poor working class.

Consumption will be hit macro variables

When liquidity shortage strikes, it is consumption that is going to be adversely affected a macro variables on the economy. The economy growth has interlinked with one another of macro variables of the country. One variable favor and unfavour affects another it's like chain relation. Consumption $\downarrow \rightarrow$ Production $\downarrow \rightarrow$ Employment $\downarrow \rightarrow$ Growth $\downarrow \rightarrow$ Tax revenue \downarrow India risks its position of being the fastest growing largest economy: reduced consumption, income, investment etc. may reduce India's GDP growth as the liquidity impact itself may last three - four months.

Impact on bank deposits and interest rate

Deposit in the short term may rise, but in the long term, its effect will come down. The savings with the banks are actually liquid cash people stored. It is difficult to assume that such ready cash once stored in their hands will be put into savings for a long term. They saved this money into banks just to convert the old notes into new notes. These are not voluntary savings aimed to get interest. It will be converted into active liquidity by the savers when full-fledged new currency supply takes place.

This means that new savings with banks is only transitory or short-term deposit. It may be encashed by the savers at the appropriate time. It is not necessary that demonetization will produce big savings in the banking system in the medium term. Most of the savings are obtained by biggie public sector banks like the SBI. They may reduce interest rate in the short/medium term. But they can't follow it in the long term.

Impact on black money

Only a small portion of black money is actually stored in the form of cash. Usually, black income is kept in the form of physical assets like gold, land, buildings etc. Hence the amount of black money countered by demonetization depends upon the amount of black money held in the form of cash and it will be smaller than expected. But more than anything else, demonetization has a big propaganda effect to control black money. People are now much convinced about the need to fight black income. Such a nationwide awareness and urge will encourage government to come out with even strong measures.

Impact on GDP

Growth in the Indian economy remained solid in the quarter from April to June 2016 (the latest available). In India, a financial year begins in April and ends in March of the following year. The previously mentioned quarter is the first quarter of fiscal 2016–2017. During that period, the GDP (gross domestic product) rose 7.1%, while the GVA (gross value added) rose 7.3%. The relationship between the GDP and GVA is:

$$GDP = GVA + \text{taxes on products} - \text{subsidies on products}$$
 The base year for calculating the GVA is 2011–2012. The fall in economic activity due to demonetization could last from two to three quarters. As a result, GDP and GVA growth in the quarters from September to December 2016 and January to March 2017 could be significantly lower than previous years. Some bounce back should be seen in the first quarter of fiscal 2017–2018. In the medium term, the Indian economy can grow considerably after curbing the debilitation caused by counterfeit money and an increase in economic activity. A fall in discretionary consumption will hurt companies operating in this space. However, a rise in tax flow and lower interest rates, are expected to help the Indian economy grow stronger.

Impact on cashless transactions

Demonetization technically improves the cash less transactions, instead of using currencies the people starts using cards. It helps to reduce the tax evasion, reduce the risk of carrying cash and improve credit access of financial inclusion.

Conclusion

Demonetization as a cleaning exercise may produce several good things in the economy. At the same time, it creates unavoidable income and welfare losses to the poor sections of the society who gets income based on their daily work and those who doesn't have the digital transaction culture. Overall economic activities will be dampened in the short term. But the immeasurable benefits of having more transparency and reduced volume of black money activities can be pointed as long term benefits.

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IMPACT OF DEMONETIZATION ON VARIOUS SECTORS AND THE ECONOMY

C.Gopalakrishnan

Ph.D Research Scholar, Govt.Arts College, Melur

Abstract

In an important move, the Government of India declared yesterday that the five hundred and one thousand rupee notes will no longer be legal tender from midnight, 8th November 2016. The RBI will issue Two thousand rupee notes and new notes of Five hundred rupees which will be placed in circulation from 10th November 2016. Across the medium term, the demand for real estate, especially in the secondary market i.e. Resale Transaction and Tier-II cities where the cash component, as a proportion of transaction is significant, could face a slowdown. This trickle-down effect could encompass the entire real estate sector putting pressure on the demand itself.

Keywords: Downward Bias, GDP, parallel economy, Bond Markets, Real Estate.

Introduction

In an important move, the Government of India declared yesterday that the five hundred and one thousand rupee notes will no longer be legal tender from midnight, 8th November 2016. The RBI will issue Two thousand rupee notes and new notes of Five hundred rupees which will be placed in circulation from 10th November 2016. Notes of one hundred, fifty, twenty, ten, five, two and one rupee will remain legal tender and will remain unaffected by this decision. This measure has been taken by the PM in an attempt to address the resolve against corruption, black money and counterfeit notes. This move is expected to cleanse the formal economic system and discard black money from the same.

Effect on parallel economy: Cash Economy to Witness Contraction

The currency of the aforementioned denominations constitutes around 86% of the total value of the currency in circulation. It is expected to remove black money from the economy as they will be blocked considering the holders will not be in a position to deposit the same in the banks, temporarily halt the circulation of large volumes of counterfeit currency and curb the funding for anti-social elements like smuggling, terrorism, espionage, etc.

Effect on GDP: Downward Bias to GDP Growth

The sudden decline in money supply and simultaneous increase in bank deposits is going to adversely impact consumption demand in the economy in the short term. This, coupled with the adverse impact on real estate and informal sectors may lead to lowering of GDP growth.

The GDP formation could be impacted by this measure, with a reduction in the consumption demand. However, with the recent rise in festivals, demand is expected to offset this fall in an overall impact. Moreover, this expected impact on GDP may not be significant as some of this demand will only be deferred and will re-enter the stream once the cash situation becomes normal.

Lower Money Supply has a Deflationary Effect:

With the older 500 and 1000 Rupees notes being scrapped, until the new 500 and 2000 Rupees notes get widely circulated in the market, money supply is expected to be reduced in the short run. Reduction in money supply can also have a deflationary effect in the economy. However, whether the impact of the reduced money supply will lead to deflation or contraction in demand or a mix of both will vary from sector to sector depending on the nature of goods & services. To the extent that black money (which is not counterfeit) does not re-enter the system, reserve money, and eventually, money supply will decrease permanently. However, gradually as the new notes get circulated in the market and the mismatch gets corrected, money supply will pick up speed.

Impact on Bond Markets

Surge in deposits will create more demand for government bonds and other high rated bonds in a situation of tepid demands for credit, leading to lower bond yields especially in the shorter end of the curve. At the same time, a reduction in leakages in systemic liquidity will reduce the scope for open market operation purchases in the coming days. We believe that the RBI will continue to

sterilize excess liquidity from the banking system to keep the short term rates aligned with the policy rate.

Credit Impact across Sectors

Impact of this policy measure will flow to the economy mainly through the Real Estate sector, which has strong linkages with sectors such as cement and steel and which will turn credit negative in the short-run. A significant impact in the short-run will be on the daily/weekly wage employment in the informal sector. The construction sector has one of the highest employment multipliers. The key segments of the economy where cash transactions play a vital role are real estate, gold and the informal sectors, which may face near term contraction. With more money coming into the banking ambit, deposit growth is likely to improve and positively impact the savings rate. The medium- to long-term gains are likely to outweigh the short-term pains.

Effect on Banks

As directed by the Government, the 500 and 1000 Rupee notes, which now cease to be legal tender are to be deposited or exchanged in banks (subject to certain limits). This will automatically lead to more amounts being deposited in Savings and Current Accounts of commercial banks. This, in turn, will enhance the liquidity position of the banks, which will be later utilized further for lending purposes. However, to the extent that households have held on to these funds for emergency purposes, there are expected to be withdrawals at the second stage.

Effect on Online Transactions and alternative modes of payment:

With cash transactions facing a reduction, alternative forms of payment will see a surge in demand. Digital transaction systems, E wallets and apps, online transactions using E banking, usage of Plastic money (Debit and Credit Cards), etc. will definitely see substantial increases in demand. This should eventually lead to strengthening of such systems and the infrastructures required.

Bank Deposit Rates to Soften

We can expect a large amount of cash in circulation to be brought within the purview of the formal banking system by way of deposits. This is structurally positive for banks, as part of this cash gets deposited as current account and savings account (CASA) deposits, reducing banks dependence on higher cost borrowing. Deposit

deployment remains a challenge in the short to medium term due to the current tepid demand for credit, subsequently pushing deposit rates lower.

NBFC's Asset Quality Faces Pressure

We believe in the asset quality of Retail Asset Lenders, especially NBFC's which have developed expertise in the credit assessment of the informal segment and have built models around it to stay under pressure in the short term. Within NBFC's, asset quality of lenders with a large dependence on cash collection remain vulnerable in the short term. In the longer term the implications could be a risk profile shift for the NBFCs, as the stronger borrower profile could potentially migrate to banks. Across the medium term, the demand for real estate, especially in the secondary market i.e. Resale Transaction and Tier-II cities where the cash component, as a proportion of transaction is significant, could face a slowdown. This trickle-down effect could encompass the entire real estate sector putting pressure on the demand itself. This could adversely impact NBFC's & housing financiers with a large proportion of exposure Mortgage built with a self-employed customer profile. We believe that Micro Finance Institutions and Small Finance Banks (SFB's) may not be significantly impacted in the long term, considering that the cash flows of the borrower segment are usually in the smaller denomination. However, there could be near term disruptions in the collection cycles along with a spike in over dues, which could put their liquidity strengths and the disbursement cycles under pressure.

Payment Banks to Benefit

Payment banks and others entities which are part of the transaction ecosystem are likely to be long term beneficiaries, as more and more cash finds its way into the formal banking channels. We believe the cumulative measures taken to reign in black money will improve banking habits, create financial and transactional history of the informal & cash dependent segments and could, over the long term, make them 'bankable'.

Investment in Financial Products

Investors in the short term will now believe that Cash is not the safest asset and there is little point in hoarding it. This will shift them from physical asset to financial assets where returns are also higher

Impact on Consumption Sectors

Agreement Cost of Real Estate May Rise

We expect that the real estate demand from end users is unlikely to be impacted, since a majority of them are backed by funding from bank loans. Demand from

investors for real estate however may come down since in some cases, investors prefer cash transactions. If the proportion of earlier transactions in the real estate sector, which were allegedly done through partial cash payment reduces, the registered prices for real estate will go up.

Used car Sales May Fall

Sales of vehicles in the second hand market for original equipment manufacturers will get impacted, which will cause a ripple effect on New Car sales, as buyers will not be able to dispose of their old vehicles easily.

Slowdown in Discretionary Spending to Hurt Consumer Durable Sales:

Sales of White Goods like TV, Refrigerator & Washing Machine could slump as much as 70% as a good portion of the market is driven by Cash. This may continue for next Six Months till the dust settles down and there is adequate circulation of the new currencies. Prices are expected to fall only marginally, due to moderation in demand, as use of cards and cheques could compensate for some purchases.

Demand for Gems and Jewellery to Decline

We can expect the demand for gems and jewellery to decline in the next two to three quarters. This would result in a weakening in the credit profile of industry players due to the high working capital cycles and high operating leverage. The unorganised segment will be hit particularly hard, given the large proportion of unaccounted inventory and high proportion of cash sales. Over the medium-term the organised industry players will benefit at the cost of the unorganised players. Gold imports through the unofficial channels are likely to reduce. There will be no significant impact on jewellery exporters because it is mostly an organised market and sales are against invoices.

Private Educational Institutions

Since Private Educational Institutions take huge amounts of donations in Cash which is 40 % to 50%, we expect that this move will impact the Private Education Institutions receipts.

Medical Institutions (Both Hospitals & Medical Colleges)

Again, as Medical Institutions like Hospitals and Colleges take huge amounts of donations in Cash which are more than 100 % of fees, we can keep on expecting that this move will impact not only the admissions but also the receipts.

Political Parties

Elections & Political Parties are major sources of Black Money transactions. Most of the funding of National Political Parties is in Cash which is 40% to 50%, and when it comes to Regional Parties it goes upto 50% to 60%. The sources of more than 90% of such funds are never disclosed. Candidates as well as their donors even the Political Parties will feel cash strapped. An assembly seat candidate spent on an average Rs. 4-5 Crores on Campaigning that is likely to go down drastically.

Dabba Trading (Bucketing)

It may kill Dabba Trading. Trades done outside bourses, Satta Bazaar & Illegal Betting market may die a natural death as currency gets a new face. Demonetisation was a jolt for Dabba traders, who were thriving in equity markets for many years now.

Conclusion

Since most of the Rural Economy is based on Cash, it's going to impact the Rural Economy. Sectors with a sizeable magnitude of Cash transactions such as Real Estate, Construction, Jewellery, high-end retail, White Goods and travel & tourism are expected to adversely affect. It will push the economy because of flow of more money into the banking system. In the long term, the economy will benefit from the reduction of the black money, which will lead to higher tax collection, better business environment, less corruption & transparency. It will improve the situation of Fiscal Deficit of the Country and hence reduce the fiscal deficit.

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EFFECT OF DEMONETIZATION ON REAL ESTATE

J.Kalaisigamani

Ph.D Research Scholar, Department of Economics, Bharathiar University, Coimbatore

Abstract

India's business environment has been tremendously shaken up by the recent demonetization of the higher currency notes by the Indian government. This is the third demonetization exercise undertaken by the Indian authorities, if we include the one done just before independence in 1946. It is still too early to accurately gauge the depth of the shakeup this has caused, but its effect on the real estate sector is immediately visible.

Keywords: *Demonetization, Real Estate*

Introduction

The real estate sector definitely affected by the demonetization exercise, as it has traditionally seen a very high involvement of black money and cash transactions. However, almost all such incidences have been in the secondary sales market, where cash components have traditionally been a veritable 'must'. In other words, the resale properties segment will take a big hit. However, short-term pain is inevitable when we look for any eventual long-term cure for the disease. There has for long been a strident demand to bring transparency in the sector so that the it becomes more organized, and cash dealings must necessarily be the first symptom of the disease to be dealt with. The luxury and high-end segments of residential real estate will also see a major impact from this exercise, since it is another area which has seen a lot of payments done in cash. The legal banking/financing channels have accounted for only a small part of all transactions in this space. The demonetization move is likely to result in luxury property prices dipping by as much as 25-30 per cent as sellers struggle to offload properties to generate liquidity. This means that luxury home buyers will suddenly have a much wider bandwidth of options to choose from.

With black money suddenly being wiped out of the market, a lot of investors who have been investing in projects with unaccounted-for money – and raising prices to book profits – will be eliminated from the system, thereby aiding a much-needed correction.

Overall Effect on the sector

In the past one year, there have been a few positive and potentially long-lasting changes in the Indian real estate. The passing of RERA (Real Estate Regulation and Development Act 2016), the Benami Transactions Act and

now the demonetization move will ensure that going forward; the sector will lose much of its historic taint and become more transparent. Only players who conduct their business with integrity will survive. This bodes well for end-users, who will be aware of their rights, have the assurance of not being cheated and will no longer need to contend with constantly rising prices. They will be able to buy properties of their choice at affordable prices, in projects which will assuredly be delivered on time. The demonetization exercise was a very necessary step which was bound to bring with it a tremendous shake-up wherever black money has played a major role. Over the long term, the Indian real estate sector will emerge stronger, healthier and capable of long periods of sustained growth. As of now, there is no reason for developers and investors who have conducted their dealings transparently and legally to panic. It will essentially be business as usual for them.

Lower liquidity likely to impact demand, construction progress and secondary market transactions:

The construction progress is likely to get hampered as buyers of under-construction properties, who pay in installments or stage payments to builders as per contractual Builder Buyer Agreements, may now have lower liquidity leading to lower collections by developers. The routing of black money into real estate sector which was creating demand and supporting property prices is largely going to dry up. Demonetization will lead to lower collections in the form of customer advances as projects in early stages of construction are mostly dependent on these advances for construction progress and debt servicing. This impact will be greater for small and marginal developers rather than large developers who have access

to multiple financing sources. The problem will aggravate if banks and financial institutions do not interfere to support the sector and provide the required liquidity.

The purchases of the under-construction properties generally took place at the initial launch stages or at early stages of construction, where buyers have enough cash flow to pay the first few installments and sell it in the secondary market much before the full completion of the project. These speculators make a gain from the likely price rise in the projects as they near completion. Such buyers are struggling due to the prolonged slow down and a stagnant or falling price situation over the demonetization move. Prices in the secondary market are still supported by a high component of black money, which will no longer be available. The secondary market transactions built on a speculative view will clearly be significantly lower.

Expected decline in prices

Selling an existing property and using the proceeds of the sale at prevailing prices to buy a new property often supported the property prices. Such transactions had two components- one, the legitimate part where stamp duty was paid and second, the 'cash' component which constitutes 35-40 Per cent of the transaction value and does not entail any taxes or stamp duty. The

Centre's move to curb black money has restricted liquidity and will thus have two implications- one, the price support from the 'cash' component will no longer be there and prices will drop. Two, since the tax proceeds will now be charged on the entire transaction value, instead of the 60-65 per cent value charged earlier, the post-tax receipt with the seller will be lower. Hence the seller will then offer a lower price for his purchases.

Lower land deals in short and medium term:

There will be fewer land deals in the interim period before all the transactions enter the formal system. Once they do enter the formal system, the developers will bear the transaction costs which will impact their profitability margins as an increase in real estate prices would not be possible. Property prices are headed for a drop by at least 10-15 per cent due to demonetization. It expects that the increased liquidity in the banking system will attract genuine buyers to invest in property. In the long term, demonetization along with implementation of Real Estate Regulation Act and single-window clearance system will be positive for the sector leading to higher transparency and investor's confidence.

Conclusion

The primary sales segment is largely influenced by home finance players, and these deals tend to be facilitated in a transparent manner. A limited impact in the large cities, though some tier II and tier III cities, where cash components have been a factor even in primary sales, will see a business crunch. The secondary or resale market will, however, certainly get impacted, given the fact that this segment does see the involvement of cash component. There will be a minimum impact on office/industrial leasing and transactions business; given that cash components do not play a significant role in such transactions.

The real estate demand from end users is unlikely to be impacted, since a majority of them are backed by funding from bank loans. Demand from investors for real estate however may come down since in some cases, investors prefer cash transactions. If the proportion of earlier transactions in the real estate sector, which were allegedly done through partial cash payment reduces, the registered prices for real estate will go up. The supply of real estate in the secondary market, which is strongly rumoured to have a large cash component involved, to suffer in the short term, which may in turn improve demand for residential real estate in the primary market. In the medium term, the prices in this sector could regain on many fronts as developers rebalance their prices (probably charging more on cheque payment).

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THE IMPACT OF DEMONETIZATION ON AGRICULTURE SECTOR & INDUSTRIAL SECTOR

P.Macharaja

*Ph.D- Full Time Research Scholar, Center for Research in Economics,
Government Arts college, Melur, Madurai-625106, Tamilnadu*

Abstract

The recent "demonetisation" exercise in India is an attempt to work out the possible consequences of the recent "demonetisation" drive in India. The stress in agriculture has begun to appear because of demonetization. Agriculture is impacted through the input-output channels as well as price and output feedback effects. Sale, transport, marketing and distribution of ready produce to wholesale centres or mandis, is dominantly cash-dependent. The impact of demonetisation on industry the shock is home-grown and will impact both demand and supply sides. Whether the repercussions for industry will endure beyond the near-term is still debatable, though falling property prices and related chain effects can be long lasting.

Keywords: *monetary turmoil Ripple effects cash-dependent*

Introduction

The recent "demonetisation" exercise in India is an attempt to work out the possible consequences of the recent "demonetisation" drive in India. On 8 November 2016, the Government of India stripped Rs 500 and Rs 1,000 denomination currency notes of their legal tender status. The primary goals were to rid the economy of fake currency and hit out at tax evaders who had amassed their illegitimately acquired wealth in the form of high value currency notes. Even if the government's intentions are laudable, the sudden disappearance of a substantial part of currency notes (around 86%) from the economy¹ has caught the population by surprise and unleashed an unprecedented monetary turmoil.

The impact on agriculture

Reports of stress in agriculture have begun to appear because of demonetization. Cash is the primary mode of transaction in agriculture sector which contributes 15% to India's total output. Formal financing in many parts, especially Punjab, Uttar Pradesh, Odisha, Maharashtra, Gujarat and Kerala is significantly from cooperative banks, which are barred from exchange-deposit of demonetized currency. Notably, this is a time of kharif harvest and start of rabi sowing, partly explaining why this period is dubbed the 'busy season' from a standpoint of credit demand, the other being bunching of festivals and weddings.

Agriculture is impacted through the input-output channels as well as price and output feedback effects. Sale, transport, marketing and distribution of ready produce to wholesale centres or mandis, is dominantly

cash-dependent. Disruptions, breaks in the supply chains feedback to farmers as sales fall, increased wastage of perishables, lower revenues that show up as trade dues instead of cash in hand and when credited into bank accounts with limited access affect the sector.

Currently, many of these networks are operating sub-optimally or altogether at a standstill, depending upon location, market links and other item-specific factors. The input side is equally affected as many payments/purchases, such as seeds, fertilizers, implements and tools, are outright in cash. Borrowing-financing operations of larger farmers and organized producers are also cut off or severely clipped.

The impact is visible in different sub-segments. Winter crops such as wheat, mustard, chickpeas are due for sowing in a fortnight. Wheat prices were already up due to low stocks and anticipated shortfall in 2015-16 output and have firmed up further as demonetization fallout pushes traders to build more inventories. Production in 2016-17 could drop if sowed acreage (rabi) reduces for want of enough seeds on time to exploit the adequate soil moisture. Yields could fall from late sowing and subsequent exposure to rough spring weather, the lack of sufficient or timely application of fertilizers, pesticides, etc. Farm labour, vital for this period, is reported to be unpaid as farmers have no cash. Many of them are reported to be returning from some northern parts to homes in UP and Bihar. Labour shortages and wage-spikes may follow with a lag.

Plantation crops such as rubber, tea, jute, cardamom are seeing no wages paid to workers. Small-medium tea

growers have few buyers now (a third of the tea was unsold in recent auction in the south). Raw jute trade is halted as paucity of funds affects procurement-delivery by traders. Projections of scarcity have appeared with appeals for official procurement support. Cotton is witnessing havoc: daily arrivals have plunged to 30,000-40,000 bales against the usual 1.5-2 lakh bales at this time (harvest) as per reports and prices have soared 9% in a week, pushing up global prices in turn.

Vegetables and fruits that along with crops added 61% of agriculture's gross value added in 2015-16, depends critically upon a cash-strapped transport sector for daily supply network. Sales have dropped sharply (25-50%) across markets with occurrences of dumping. At present, demand is repressed for want of currency, so prices are subdued, but eventually, supply shortages could cause prices to rise.

How long can the demonetization drag upon agriculture persist? And how soon could the segment rebound? The answer is up in the air at this point. Production patterns and cycles vary and there is little guidance as to when the demonetization dust finally settles. However, gestation periods extend from 2-3 months for vegetables and 4-6 months for oilseeds, pulses and cereals. Production losses in vegetables cannot be recouped and is a permanent loss. Lower cereals, oilseeds outputs would persist until the next harvest, or about nine months and it is certain that incomes and profit margins will be hurt. Price and output effects will reflect all the above listed factors. This means considerable fluctuations, increased uncertainty and risk.

The impact of demonetisation on industrial production

Industrial production data for October 2016, the last point before demonetisation, was released last Friday. This showed that overall industrial output contracted by 1.9%. The fall over September was steeper at -6.3%. The index (IIP) has grown by -0.3% in this year so far (April-October), compared to a corresponding 4.8% growth last year. This shows how weak industrial activity was even without demonetisation, a home-grown shock. The two major components, consumer and capital goods, shed some light on trends in consumption and investment or aggregate demand. Growth in consumer goods, although positive at 1.2% in the year so far, was weaker than the last year. And capital goods output growth was -22% in the period (-26% in October) relative to a decent 9% growth in April-October 2015.

So, industry was not in a good a situation to start with. Production actually dropped in April-October across mining (-0.2% against 2.2% last year) and manufacturing (-1.0% against 5% growth in April-October 2015) with only electricity segment showing positive, 4.6% growth. If this was the state even before demonetisation, how will the industrial performance look like in coming months? A lot worse, it seems. Consider the initial evidence from leading and anecdotal sources. November's manufacturing PMI already showed moderation at 52.2 against 54.4 in October. Demonetisation will hurt demand with consumer goods being the worst affected. Cement sale volumes halved in November. This is unlikely to improve considering the darkened outlook for real estate—property prices are anticipated to fall by 20-40% and developers are pruning overall costs, including staff, to economize on cash and sustain bottom lines. Ripple effects will be felt in steel and other inputs as well. Automobile sales in November were 5.48% lower—the slide is expected to accelerate in coming months as sagging retail sales feed back to manufacturers who may even cut output in next round. Consumer goods' firms whose sales volumes either fell or grew feebly in September quarter will also get impacted.

Note though that November figures will understate the impact of disturbance. Industrial performance for November, as captured by the IIP (data due in January 2017) will also not reflect the full impact of disruption. The first full impact of demonetisation on industry will thus be known only from December data, which will arrive only in February next year. Since the cash crunch impact is widely expected to persist for two quarters, there is little chance that industrial growth will improve in the second half of 2016-17. Therefore, the year as whole may see industry contracting. This would be for the first in three years. In 2013-14, total industrial output grew -0.17% as the "taper" shock struck the economy. This time, the shock is home-grown and will impact both demand and supply sides. Whether the repercussions for industry will endure beyond the near-term is still debatable, though falling property prices and related chain effects can be long lasting.

Conclusion

In an important move, the Government of India declared that the five hundred and one thousand rupee notes will no longer be legal tender from midnight, 8th November 2016. The RBI will issue Two thousand rupee notes and new notes of Five hundred rupees which will be placed in circulation from 10th November 2016. Notes of one hundred, fifty, twenty, ten, five, two and one rupee will

remain legal tender and will remain unaffected by this decision. This measure has been taken by the PM in an attempt to address the resolve against corruption, black money and counterfeit notes. This move is expected to cleanse the formal economic system and discard black money from the same.

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ADVANTAGES AND DISADVANTAGES OF DEMONITIZATION

V. Thirupathi

Research Scholar, PG Research Department of Economics, Government Arts College, Melur

Abstract

The current demonetization policy of Government of India (GOI) is the buzzing topic in every nook and corner of India. On October 8th, 2016, GOI declared that 500 rupee notes and 1000 rupee notes are invalid. New currencies in denomination of 2,000 and 500 are to replace the old currency. The demonetization measure is welcomed by majority of the people as 93 percent of the respondents in the Modi App voted in favor. Though, the real people suffering are standing in the queue and are mostly poor. Overall, Demonetization is a bold step towards good governance and transparency.

Keywords: NEFT, RTGS Good Governance

Introduction

The current demonetization policy of Government of India (GOI) is the buzzing topic in every nook and corner of India. Demonetization is done for the overall economic development for India. There are various advantages and disadvantages of the demonetization drive. Let's analyze them in detail.

Demonetization Scenario

On October 8th, 2016, GOI declared that 500 rupee notes and 1000 rupee notes are invalid. New currencies in denomination of 2,000 and 500 are to replace the old currency. People can exchange the old currency in the banks to new currency up to 4,500 rupees initially till 24th November. People can deposit the old currency in their bank accounts. Deposits above 2, 50,000 rupees need documents and will be taxed according to the newly introduced tax bill in Lok Sabha on 29th November 2016 by finance minister, Mr. Arun Jaitley. GOI has extended old currency exchange in EB offices, tax offices, petrol bunks etc. till 15th December 2016. In the ATMs, initially 4,000 rupees was allowed to be withdrawn but now only 2,000 is the daily withdrawal limit. GOI aims to make a cashless economy through financial inclusion measures like payment banks, card based transactions, online transactions, internet banking, NEFT, RTGS etc. The mobile applications like Pay tm, Mobikwik etc. are advised for online transactions in the current scenario.

Advantages of Demonetization

The main objective of demonetization is to curb black money. Curbing Black Money Demonetization has made it mandatory for every person in India to deposit their old

currency in the banks and exchange them for new currency. This will make the cash hoarders to deposit their money in the account and make it accountable. In this manner, black money will be retrieved to a certain extent.

Good Governance

Demonetization is done as a measure of good governance as suggested in the World Bank's Ease of Doing business report. This measure will increase the rankings of India in various indexes published by World Bank, World Economic Forum, United Nations and IMF etc. Demonetization will enhance the transparency levels in governance to a great extent by bringing all transactions in the formal banking sector.

Increased Tax revenue

There is an incredible surge in tax collections for the past month. Property tax, water tax and other corporation levies in all states have risen considerably. The income tax collections have also risen rapidly. The provision of Income Tax department monitoring the accounts with more than 250000 rupees deposit and collecting tax with penalties will increase the tax revenue for the government.

Disadvantages of Demonetization

Public inconvenience is the major disadvantage of the demonetization measure. People spend a full day in the banks to withdraw the money from the bank account. The queue in some banks is so large that people faint and some have even died standing for a long time. The move towards cashless transaction is good and only sections of the people are accustomed to this practice but majority of

Indians have no knowledge about this cashless transaction.

Reduced Money Circulation

There is severe shortage of money circulation in the economy as a whole. Everyone has a single 2,000 rupee note and cannot transact with it in local shops, chicken shops and many other places where swipe machines are absent due to the problem of change. There is severe shortage of 100 rupee notes and with a single 2,000 rupee note, people find it very hard to find change. People have restricted their daily transactions to the maximum and this has affected the business in all spheres considerably.

ATM Calibration

Only 40 percent of the ATM machines have been calibrated to the new currency while the rest of the ATM machines are still put of order. This creates a queue in ATM machines and the cash gets exhausted within hours. Currently, the daily transaction limit in ATM is 2,000 and you get mostly a single 2,000 rupee note. ATM machines are not fully operational causing further inconvenience to the people. Most of the times, ATM machines are out of cash.

Corruption and Fraud

There are many instances of fraudulent activities like the banking personnel and the post office personnel illegally exchanging the old currency for new currency for a commission amount. The brokers are making hay of the current situation and earn whopping commission of 50 to 60 percent for exchanging the currency using the poor people. The misuse of Jan Dan accounts to exchange black money is also revealed and restrictions are implied on such accounts. Media has exposed such cases of corruption.

How it will curb black money-

In India all sections of the society are accustomed to use cash transactions, and this habit is unscrupulously misused by some bad elements of the society. Such habit resulted in even people with accounted money are started using cash transaction for high value transaction. It is resulted into parallel economy with unaccounted money, even much stronger than regular economy. The parallel economy black money, corruption, counterfeit currency and terror financing. These issues hampered growth and development of the economy. In this background demonetisation of Rs 500 and Rs 1,000 currency notes

as a master stroke, as the move will address issues like black money and corruption and also help the economy become more digital. The move will either unearth the black money slashed in the form of cash or forces to destroy those unaccounted currencies. Demonetisation will curb the menace of black money and will help check stashing of funds to a large extent. Similarly it has major impact on corruption that exists in India and also on financing of terror activities in India. Hence it was considered as courageous step in the fight against unaccounted money. Some argues against of it-Currently high-value currency notes accounts for the value of 86% of the notes in circulation in India. According to some estimates the size of the black economy in India range from 20% to 60% of GDP and more and the currency in circulation is just 12% of GDP. Even if more than 50% of money in circulation is black money, but most of it will find its way back to the banking system one way or another, and be recycled as new notes. According to some experts, the black money holders, tax evaders and corrupt official may not slash these money in cash in their homes due to sheer scale of logistics. Generally many viewed that tax evaded income mostly invested in companies, real estate and these people may not be affected due to demonetization. Hence these experts argue that, demonetisation may not yield desired results against black money, rather it creates inconvenience to the general people. Black Money tracking This move will help the government to track unaccounted black money or cash on which income tax has not been paid. Individuals who are sitting on a pile of cash usually do not deposit the amount in the bank or invest anywhere as they would be required to show income or submit PAN for any valid financial transactions. They would hide it somewhere and use it as and when necessary. Banning high-value currency will impact people who will have no option, but, to declare income and pay tax on the same or destroy the cash somehow. Reduction in illegal activity Banning high-value currency will halt illegal activity as the cash provided for such activities has no value now. Black money is usually used to fund the illegal activity, terrorism, and money laundering. Fake currency circulation will come to a halt in a single shot. Corrupt officers, money launderers are under threat as Income tax department is taking all the measures to track such people.

Tax payment

Most of the businessmen who have been hiding some income are ready to pay advance tax as current year's income. Tax payers who have been hiding some income

can come forward to declare income and pay tax on the same. Individuals are required to submit PAN for any deposit above Rs 50,000 in cash, which will help tax department to track individuals with high denominations. Also, deposit up to Rs 2.5 lakh will not come under Income tax scrutiny

Jan Dhan Yojana

Now individuals are depositing enough cash in their Jan Dhan accounts which they were reluctant to do so a few days back. The amount deposited can be used for the betterment of the country.

Cost of currency destruction

After the news, we have seen that many individuals have burnt their cash and discarded the same, which is a loss to the economy. The government has to bear the cost of printing of new currency and its circulation. It makes sense when benefits of demonetization are higher.

Conclusion

The demonetization measure is welcomed by majority of the people as 93 percent of the respondents in the Modi App voted in favor. Though, the real people suffering are standing in the queue and are mostly poor. The recent announcement of Mr. Arun Jaitley that the proceeds of tax collected during the demonetization drive will be used for the welfare of the poor is a welcome measure though. Earlier, LPG Direct Benefit Transfer was used to divert the subsidies of the rich to offer 2 crore free LPG connections to the poor. Overall, Demonetization is a bold step towards good governance and transparency.

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DEMONETIZATION IS A TRAGEDY OR A REMEDY IN THE INDIAN ECONOMY?

S.Niranjana Devi

Ph.D Research Scholar, PG & Research Department of Commerce,
Mannar Thirumalai Naicker College, Madurai, Tamilnadu

Abstract

The demonetization, by removing 86 per cent of the currency in circulation, has resulted in a very severe contraction in money supply in the economy. This contraction, by wiping out cash balances in the economy, will eliminate a number of transactions for a while, since there is no or not enough of a medium of exchange available. Since income and consumption are intrinsically related to transactions in the economy, which would mean a severe contraction in income and consumption in the economy. This article has been argued that the cash that would be extinguished would be "black money" and hence, should be rightfully extinguished to set right the perverse incentive structure in the economy, this argument is based on impressions rather than on facts. While the facts are not available to anybody, it would be foolhardy to argue that this is the only possibility.

Keywords: Black money, Non-negotiable debt instrument, Cash Reserve Ratio, Gross Domestic Product, Small & Medium and Small Scale Industries

The government has implemented major changes of currency in the high value currency notes removed from the money circulation in India. This was announcing the legal tender from the midnight of 8th of November 2016 by the Honorable Prime Minister Mr. Narendra Modi. People have been given upto December 30, 2016 to exchange the notes held by them. There are potentially two ways in which the pre-demonetisation money supply will stand altered in the new regime: one, there would be agents in the economy who are holding cash which they cannot explain and hence they cannot deposit in the banking system. This part of the currency will be extinguished since it would not be replaced in any manner. Second, the government might choose to replace only a part of the currency which was in circulation as cash. In the other words, the rest would be available only as electronic money. This could be a mechanism used to force a transition to cashless medium of exchange.

The empirical extent of these two components will be unravelled only over the next six months. These two would have different effects on the economy in the short term and in the medium term, as will be explored below. To understand the effects of these dimensions, it is important to first understand what is it that cash does in the economy? There are broadly four kinds of transactions in the economy: accounted transactions, unaccounted transactions, those that belong to the informal sector and illegal transactions. The first two categories relate to whether transactions and the corresponding incomes are reported for tax purposes or not. The third category would

consist largely of agents who earn incomes below the exemption threshold and therefore do not have any tax liabilities.

Finally, there would be demand for cash for illegal purposes like bribes in elections, spending over sanctioned limits, dealings in crime and corruption. If one takes a snapshot of the location of cash at any given point of time, it is difficult to predict what the breakup of the cash according to these categories would be, but it would be safe to say that each of these components would be represented in that snapshot.

With contraction in demand from one set of agents – say agents who have earned unaccounted incomes and placed them within the real estate space – either prices within this segment would fall or transactions would cease to happen. While of itself, this would be considered a positive development and evidence of a correction in the unaccounted incomes, it could lead to a compression in investments in the construction sector which can have adverse income and employment consequences for the economy. There are likely to be two spin-offs from this change – one, there would be some increase in tax collections in the short term, and second; various IOUs could emerge as currency substitutes. To the extent people attempt to get rid of unaccounted cash balances through purchase of goods and services and/or payment of property taxes, one should witness a spurt in tax collections in indirect taxes as well as property tax in the month after demonetisation which would disappear thereafter. There is evidence already that property tax

collections in some cities are higher than last year. Similarly, in the case of currency substitutes, at MCD tax collection centres at the border, people are being given IOUs in lieu of the balance they were entitled to, which would be valid for six months. Short-term effect with complete replacement:

The Effects on the Small Scale Industry and Small Agricultural Sector:

The short-term effect on the economy would depend on the speed with which and the extent to which the cash is replaced by the authorities. If the entire cash is replaced within a short duration of time, the effects beyond the very short term of 1-2 months might be little. But a few sectors are likely to be seriously affected. To give an example from two sectors which are supposed to have large employment effect on the economy, we can talk about agriculture, automobiles and construction. This is the sowing season for the Rabi crop in some parts of the country and the harvesting season for the Kharif crop. Most of the purchases and sales in this segment of the economy are carried out through cash. With the elimination of cash from the economy, sale of kharif crop would be difficult unless the crop is sold on the promise of payment in future. Given the limited bargaining power of the farmer, the price they can realise for the crop can be adversely affected. To using digital versions of money as the medium of exchange. While this change is gradually happening in the economy, if it is forced by making cash inaccessible, the compression in demand as well as in income generation in the economy would continue for a longer period until people get familiar with the functioning and use of these media. Medium-term effects: In the medium term, the effects would be related to the extent to which the currency is not replaced within the economy. If the entire currency is replaced, there would not be any major effects on the economy. However, it is to be expected that the entire currency would not be replaced – to the extent currency is extinguished and to the extent some of the currency remains as bank deposits, there would be some impact on the economy. The first effect would be a compression of the economy to the extent the extinguished currency was working as a medium of exchange. The currency that is placed in Accesses at the banks but not withdrawn, it is argued, would generate an expansion in deposits in the economy. In the discussions on demonetisation, there is a consistent reference to the resultant increase in credit creation in the economy. Like Finance Minister Arun Jaitley says, "Bank deposits will increase and they will have more capacity to support the

economy."⁴ The total cumulative credit that can potentially be generated is defined in terms of the reserve ratio. Total credit potential = incremental deposit generated*(1/reserve ratio) In India, the cash reserve ratio is 4 per cent while there is a statutory liquidity ratio of 22 per cent⁵. In determining the credit creation, it is important to take into account only the CRR and the additional credit creation can be 25 times the amount of money deposited in the banks as a result of the proposed demonetisation.

The Effects on the Large Scale Industry and MSME's

Impact on Macro Variables Apart from the transition issues faced by banks, in judging the impact on the economy, it is important to differentiate between the two changes that the demonetisation can bring about in money supply. The first change, i.e., cash being extinguished, to the extent it was being used as medium of exchange, would result in a compression in incomes, employment and consumption in the economy. On the other hand, the effect of the second change, i.e., cash being only partially replaced in the system would have the opposite effects of expansion in potential credit creation. The potential credit creation would translate into actual credit creation provided there is sufficient demand for credit. If the demand for credit in the economy is large enough, the potential credit can be realised. With increase in GDP, since imports are supposed to be related to the size of the economy, it is expected that imports will rise, but the same cannot be said about exports. A compression in demand in the economy would further depress the sentiment driving investments. In other words, demand for credit would continue to be low and the potential credit will not be realised immediately. The first consequence of this would be a fall in the interest rates in the economy which could revive some of the sentiment since firms with outstanding debt would have lower interest liabilities and hence, can see improved balance sheets. The compression in demand would mean a decline in imports while exports might not be adversely affected. This change in the balance of trade would induce an appreciation of the currency. Along with lower interest rates, this could result in inflow of investment by FIIs as well. If the demand for credit is not very sensitive to interest rates – then the lower interest rates would not bring in sufficient demand and banks would need to explore alternative ways of placing the additional deposits available with them. This could mean that banks take in more risky assets potentially opening up the economy to more volatility and risks. This could include real estate, consumer credit and consumer credit cards. The housing

loan bubble of the US economy might be one such example of lending to more risky projects, thereby bringing in more volatility into the system. Two more extreme possibilities that might follow are: a loss in the confidence of the people in the official currency leading to bank run kind of situations if the current description of waiting for long hours for withdrawing money persists and the caps on withdrawal are not relaxed. Alternatively, they could shift to alternatives to currency. Second, there could be social unrest if the compression in incomes and consumption are severe and persistent.

Summary and Conclusion

The demonetisation undertaken by the government is a large shock to the economy. The impact of the shock in the medium term is a function of how much of the currency will be replaced at the end of the replacement process and the extent to which currency in circulation is extinguished. While it has been argued that the cash that would be extinguished would be "black money" and hence, should be rightfully extinguished to set right the perverse incentive structure in the economy, this argument is based on impressions rather than on facts. While the facts are not available to anybody, it would be foolhardy to argue that this is the only possibility. As argued above, it is possible that these cash balances were used as a medium of exchange. In other words, while the cash was mediating in legitimate economic activity, if this currency is extinguished there would be a contraction of economic activity in the

economy and that is a cost that needs to be factored in while assessing the impact of the demonetisation on the economy and its agents.

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IMPACT OF DEMONETIZATION IN INDIA

Dr. S. Karthikeyan

*Assistant professor, Department of Economics & Centre for Research in Economics,
The Madura College, (Autonomous), Madurai*

P. Mohammed Hithier Ali

*Ph.D Research Scholar (Full Time), Department of Economics & Centre for Research in Economics,
The Madura College (Autonomous), Madurai*

Abstract

In an important move, the Government of India declared that the five hundred and one thousand rupee notes will no longer be legal tender from midnight, 8th November 2016. This measure has been taken by the PM in an attempt to address the resolve against corruption, black money and counterfeit notes. This move is expected to cleanse the formal economic system and discard black money from the same. The idea of demonetization is good but it has to be taken into consideration that most of the black money is kept in the form of land, buildings or gold or kept abroad. Demonetization is an established practice in monetary policy to tackle black money. The Prime Minister has explained why this is a financial surgical strike. It was meant to be suddenly implemented. In the past, demonetization has taken place twice but it fails because the idea is to tackle the black money existing in circulation

Keywords: liquidity position, Digital Payments, Real Estate counterfeit notes.

Introduction

In an important move, the Government of India declared that the five hundred and one thousand rupee notes will no longer be legal tender from midnight, 8th November 2016. The RBI will issue Two thousand rupee notes and new notes of Five hundred rupees which will be placed in circulation from 10th November 2016. Notes of one hundred, fifty, twenty, ten, five, two and one rupee will remain legal tender and will remain unaffected by this decision. This measure has been taken by the PM in an attempt to address the resolve against corruption, black money and counterfeit notes. This move is expected to cleanse the formal economic system and discard black money from the same. Demonetization is nothing new for India. Highest denomination notes ever printed by Reserve Bank of India were Rs 10,000 in 1938 and again in 1954 which were subsequently demonetized in January 1946 and in 1978 respectively. In fact, in 1978 notes of Rs. 1,000, Rs. 5,000 and Rs. 10,000 denomination were demonetized. The Rs. 1000 note made a comeback in November 2000 and Rs 500 was introduced in 1987. Indeed, Rs 2000 are for the first time introduced by the present government.

General Impact of Demonetization

These demonetization measures have had significant and immediate impact on the state of the Indian economy.

These measures are also expected to result in long-term impact on certain industries and sectors. These measures have resulted in a significant decrease in liquidity in the short term, which is expected to ease gradually with the introduction and circulation of the new currency notes. As a result of these measures and increased deposits with banks, the bank deposit base has increased significantly, and financial savings are expected to increase as a result of the shift from unproductive physical asset based savings to interest-bearing financial assets. This, in turn, is expected to enhance the liquidity position of banks, which can be leveraged for lending purposes.

An increase in the deposit base may also enable banks to lower the blended cost of funds as higher CASA (current accounts, savings accounts) deposits enable replacement of higher borrowing costs and decrease overall cost of funds. With cash transactions impacted by a decrease in liquidity, alternative payment methods, such as e-wallets, online transactions using e-banking, debit and credit card usage have increased significantly. This will increase usage of such payment systems, and enable a shift towards an efficient cashless infrastructure. Reduced liquidity has also caused a sharp decline in the availability of disposable income, affecting spending patterns and consumption trends in the economy in the short term. These trends, together with certain industry-specific issues

discussed below, are expected to affect India's GDP growth rates adversely in the fiscal year ending March 31, 2017. While rating agency Fitch has projected a decrease in India's GDP growth by approximately 50 basis points, other projections peg India's GDP growth rate for fiscal years ending March 31, 2018 and 2019 lower by approximately 30 basis points. These forecasts indicate that an upgrade of India's credit ratings for the next two years remains unlikely, although India's current sovereign credit rating of 'BBB-' is expected to remain steady in the long term.

(1). Black Money

Black money stored in the form of Rs 500 and Rs 1000 notes will be taken out of our system. Hence the amount of black money countered by demonetization depend upon the amount of black money held in the form of cash and it will be smaller than expected. But more than anything else, demonetization has a big propaganda effect. People are now much convinced about the need to fight black income.

(2). Terror Funding

Fake Indian Currency Notes (FICN) network will be dismantled by the demonetisation measures. Taking out 500 and 1000 rupee notes out of circulation will have a lasting impact on the syndicates producing FICN's, thus affecting the funding of terror networks in Jammu and Kashmir, North-eastern states and Naxalite hit states.

(3). Real Estate may see Significant Course Correction

The real estate sector in India has traditionally involved a significant level of informal funding in the form of cash transactions.

The demonetization decision is expected to have far reaching effects on real estate. Resale transactions in the real estate sector often have a significant cash component as it reduces incidence of capital gains tax. Black money was responsible for sharp appreciation of properties in metros; real estate prices may now see a sharp drop.

(4). Political Parties in Crisis a Head of Polls

With nearly five state elections in 2017, demonetization has stunned political parties. Especially, in large states like Punjab and Uttar Pradesh, cash donations are a huge part of "election management".

(5). Moving towards Digital Payments

Demonetization will likely result in people adopting virtual wallets such as Paytm, Ola Money etc.: This behavioral change could be a game changer for India.

(6). Temporary Chaos and Confusion

Public will face minor problem for a few days owing to

the scarcity of lower denomination notes in the system.

Advantages of Demonetization

- ❖ The biggest advantage of demonetization is that it helps the government to track people who are having large sums of unaccounted cash or cash on which no income tax has been paid because many people who earn black money keep that money as cash in their houses or in some secret place which is very difficult to find and when demonetization happens all that cash is of no value and such people have two options one is to deposit the money in bank accounts and pay taxes on such amount and second option is to let the value of that cash reduced to zero.
- ❖ Since black money is used for illegal activities like terrorism funding, gambling, money laundering and also inflating the price of major assets classes like real estate, gold and due to demonetization all such activities will get reduced for some time and also it will take years for people to generate that amount of black money again and hence in a way it helps in putting an end this circle of people doing illegal activities to earn black money and using that black money to do more illegal activities.
- ❖ Another benefit is that due to people disclosing their income by depositing money in their bank accounts government gets a good amount of tax revenue which can be used by the government towards the betterment of society by providing good infrastructure, hospitals, educational institutions, roads and many facilities for poor and needy sections of society.

Disadvantages of Demonetization

- ❖ The biggest disadvantage of demonetization is that once people in the country gets to know about it than initially for few days there is chaos and frenzy among public as everybody wants to get rid of demonetized notes which in turn sometimes can lead to law and order problem and chaotic situation especially in banks and ATMs which are the only medium to change the old currency units to new currency units.
- ❖ Another disadvantage is that destruction of old currency units and printing of new currency new units involve costs which has to be borne by the government and if the costs are higher than benefits then there is no use of demonetization.
- ❖ Another problem is that majority of times this move is targeted towards black money but if people have not kept cash as their black money and rotated or used

that money in other asset classes like real estate, gold and so on then there is no guarantee that demonetization will help in catching corrupt people.

Conclusion

The idea of demonetization is good but it has to be taken into consideration that most of the black money is kept in the form of land, buildings or gold or kept abroad. What is in cash constitutes only 4% of the total amount of black money on which taxes are not being paid. This money goes into the other systems though it has been drawn from bank. These things will come under control with this step. Small farmers, sellers, merchants, daily wage labourers and traders are suffering because of lack of proper planning, intelligence and foresight such as recalibration of ATM machines. There was need to pile up enough 100 Rupee notes and other smaller denomination notes in the market before taking this step.

Demonetization is an established practice in monetary policy to tackle black money. The Prime Minister has explained why this is a financial surgical strike. It was meant to be suddenly implemented. In the past, demonetization has taken place twice but it fails because the idea is to tackle the black money existing in circulation. This is not tackle corruption per se or the Government is not saying that 100% corruption will be tackled. If

announcement and time would have been given, this step might not have been successful in controlling black money and counterfeit currency in circulation coming from Pakistan, Nepal or other countries.

People are facing problems because the limit of withdrawal has not been kept at a higher level. If this would have been kept at a higher level, there were chances that the recycling of black money might begin. The ideal money in circulation has to come to the banking channels.

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DEMONETIZATION IN INDIA – PROSPECTS AND CHALLENGES

B. Ragul Gandhi

*Research Scholar Department of Economics & Centre for Research in Economics,
The Madura College (Autonomous), Madurai*

Dr. S. Theenathayalan

*Associate Professor and Head, Department of Economics & Centre for Research in Economics,
The Madura College (Autonomous), Madurai*

Abstract

India is one of the fastest growing economies in the world. So the economy deserves some miracle changes in their planning. But the government introduces demonetization to unearth the black money, and to curb the corruption, counterfeit currency as well as terror financing. Here we discuss the fact about the demonetization and also about the benefits and drawback of demonetization. This paper also expresses the economist's thoughts about demonetization.

Keyword: Demonetization, Economist's Thoughts, Benefits and Drawbacks.

Introduction

In November 8th 2016 Indian Government has demonetized out high value currencies. Like 500 and 1000. Rupee notes. It was the one of the risky step against the black money and to barrier the corruption, deceptive currency as well as terror financing. Over the 70 percent of the common peoples are welcoming the step against black money. But on the other hand the experts have. Different negative though, for example economist hide amarthyasen Dr. Manmohan Singh and etc.

Objectives

- To expresses the fact about demonetization.
- To analyze the benefits and drawbacks of demonetization.
- To analyze Economist's thoughts about demonetization

Facts about Demonetization in India

India is one of the most populated country in the world. It has more than 65percent of population lived in the rural areas. More than 11.8 percent of their economy depends on the cash. Their GDP also equal to the greater economy like germany, japan, etc. After announcing demonetization 80 percent of the currency appears into the money circulation. They are mostly spending for high denomination bills. Banks and exchange centers are major source for their exchange. There are 20 present of black money in form of cash the rest of the black money in other shape land jeweler. There are two types of cash in the economy accounted cash and unaccounted cash. Cash can become legal only when it is accounted cash either in

fat or in the bank accounts otherwise it can be called unaccounted cash or black money. We have so many estimation further black economies. In the cash economy the RBI printed currency note are accountable. They maintain a record of printer currency.

Benefits and Draw backs of Demonetization

Benefits	Draw backs
Black money will be back into the system. It leads to increasing the government revenue.	All the black money are not in the form of cash if also invested in land and jewelry
Un accounted money will come accounted and it also becomes productive.	There is 65 per cent of the population in rural areas. They don't have proper banking habits.
Source for the terrorist founding will be counterfeit.	In the short run it leads to cash crunch it will direct effect on rural economy.
It direct to political reform, and also drive to the more transparent election	When there is decreasing level of money circulation create direct impact on consumption of goods and services. Which means demonetization will be control production of goods and services.
It leads to increase the CRR of banks and it will help to borrow money at cheaper rate also providing impetus to economic growth.	It reduces the cash transaction of the public.
In the long run it will influence to the economic growth	Production of goods and service will create negative impact on GDP growth in the future.
It will affect corruption indirectly and will create a new society.	The current policy against black money will not generated any further changes.

Economist's thoughts about demonetization

Amartya sen

Nobel laureate and eminent economist Amartya sen said, "the demonetization of currency as despotic act as the government broke the promise of compensation that comes with a promissory note." "Demonetization goes against trust. It undermines the trust of entire economy". "Only authoritarian governments can calmly cause such misery to the people- with millions of innocent people being deprived of their money and being subjected to suffering, inconvenience and indignity in trying to get their own money back." Terming the move as authoritarian, Sen told Express: "telling the public suddenly that the promise anything with certainty is a more complex manifestation of authoritarianism, allegedly justified-or so the government claims- because some of these notes, held by some crooked people, involve black money. At one stroke the move declares all Indians- indeed all holders of Indian currency- as possible crooks, unless they can establish they are not."

Kaushik Basu

"Demonetization was ostensible implemented to combat corruption, terrorism financing and inflation. But it was poorly designed, with scant attention paid to the laws of the market, and it is likely to fail. So far its effects have been disastrous for the middle and lower-middle classes, as well as the poor. And the worst may be yet to poor. And the worst may be yet to come," leading economist Kaushik Basu wrote in the New York Times. He further said that when the government announced demonetization, it justified the measure as a way to curb terrorism financing that relies on to dampen inflation.

"Both these justifications are flawed. Catching fake notes already in circulation neither helps trap the terrorists who neither minted them nor prevent more such money from being injected into the economy. It simply inconveniences the people who use it as legal tender, the vast majority of whom had no hand in its creation," Basu wrote.

Dr.Manmohan Singh

Demonetization can bring GDP down by 2per cent Former Prime Minister Manmohan Singh slammed the demonetization of Rs 500 an Rs 1000 notes and called it a "monumental mismanagement" that might bring GDP down by 2per cent. "In his opinion that they way the scheme has been implemented will hurt agricultural growth in our will hurt small industry, will hurt all those people who are in the informal sector of the economy. And his own feeling is that

the national income, that is the GDP, can decline by about 2 percent as a result of what has been done. Dr Singh also highlighted how this move was affecting the people from marginalized sector. He said: "prime Minister has said that we should wait for 50days. Well, 50 days is a short period. But for those who are poor and from the deprived sections of the society even 50days torture can bring about disastrous effects. And that's why about 60 \to 65 people have lost their lives, maybe more. And what has been done and weaken and erode our people's confidence in the currency system and in the banking system.

Arvind Virmani

Demonetization is a useful method of flushing out black money economist and former Indian representative to the IMF Araidn Virmani reportedly said that demonetization is a useful method of flushing out black money, given that a large percentage of cash holding is in these two denominations. "The manner in which it was implemented is not surprising such actions are always secret till announced, so that insiders do not take advantage of the information at the cost of the outsiders," Speaking on its short-term impact on business community, viramani said: "How it will affect requires a deeper study, but the first thing one knows is when you demonetize such a large proportion of currency, the immediate effect is collies of retail trade in goods and services. He further said the currency needed for everyday transactions has to be replaced quickly. "The longer that is delayed, the more the negative effect," he said.

Bibek Deb Roy

Criticism of demonetization not fact-based In an interview to India Today member of the Niti Ayog Bibek Deb Roy responded to the critics of demonetization and said that critics are unaware of the situation on ground, the extent of financial inclusion that has been undertaken by the Modi Government, and how the revenue generated will help enhancing public investment. Debroy told PTI that economists who live out of India normally do not have accesses to the latest data, and are hence more prone to drawing conclusions that may not hold true in the present situation. "They (economists living abroad) base their understanding essentially on reading English newspapers. Otherwise, how would they know? English language newspapers understood many things wrongly", PTI quoted 'Debroy as saying.

Conclusion

Central government's recent decision to demonetization the high value currency is one of the major steps towards the eradication of black money in India. The demonetization drive will affect some extent to the general public, but for large interest of the country such decisions are inevitable. Also it may not curb black money fully, but definitely it has major impact in curbing black money to large extent

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DEMONETIZATION IN INDIA

Dr.S.Karthikeyan

*Assistant Professor, Department of Economics & Centre for Research in Economics,
The Madura College, (Autonomous), Madurai*

P.Gnanasoundari

*Ph.D Research Scholar (Full Time), Department of Economics & Centre for Research in Economics,
The Madura College (Autonomous), Madurai*

Abstract

On 8 November 2016, India's Prime Minister Narendra Modi announced the Government of India's decision to cancel the legal tender character of 500 and 1,000 banknotes with effect from 9 November 2016. He also announced the issuance of New 500 and 2,000 banknotes in change for the old banknotes. In total demonetisation has had the desired effect and that is to reassure the Indian public that the govt is serious about tackling corruption and is concerned about the condition of the poor.

Key words: 'scrapping', stripping, Real Estate

Introduction

On 8 November 2016, India's Prime Minister Narendra Modi announced the Government of India's decision to cancel the legal tender character of 500 and 1,000 banknotes with effect from 9 November 2016. He also announced the issuance of New 500 and 2,000 banknotes in change for the old banknotes.

While the announcement essentially rendered the 500 and 1,000 banknotes invalid from 9 November 2016, the Ministry of Finance has been monitoring the implementation of these measures in a number of ways.

- Exchange of old currency notes for new 500 and 2,000 currency notes has been permitted until 31 December 2016. (i.e 50 days from the date of the announcement)
- Such currency exchanges have been limited to certain specified amounts announced from time to time and excess amounts are required to be deposited with banks subject to applicable KYC requirements.
- Cash withdrawals have been limited to ensure adequate supply of new currency notes
- Usage of old currency notes has been permitted for certain specified periods and purposes, such as at hospitals and pharmacies, gas stations and foreign currency exchange for tourists.

Demonetization is an economic term which is used to mean the 'scrapping' of old currency notes and stripping off their status of legal tender. There are two basic elements to this definition. One is 'scrapping of old currency notes'

and status of legal tender. Before we explain the same, what you need to understand that currency note or paper currency is essentially a promissory note or a legal document that simply suggests that the payee has 'promised' to pay that amount to the payer. The same is printed on every currency note as well. This is validated by the heads of the central banks of the central banks of the nation and in be scrapped for a currency note, which means that the instrument ceases to be a "legal" mode of monetary transactions and in effect loses the value associated with that instrument.

Impact on Key Sectors Real Estate and Construction

The demonstration of the highest demonetization currency notes is part of several measures undertaken by the government to address tax evasion, counter-trend currency and funding at illegal activities. The requirement to deposit currency notes in excess of specified limits directly into bank accounts has resulted in the declaration of hitherto unaccounted income, subject to higher tax and other penalties. The real estate sector in India has traditionally involved a significant level of informal funding in the form of cash transactions. As the demonetization measures are expected to result in decreased informal funding sources, the real estate sector is expected to be adversely affected. Cash transactions are most common in secondary sales, and resale transactions are expected to decline. While these measures are expected to in the long term promote transparent pricing in the real estate sector, decreased liquidity resulting from lower informal funding

sources is expected to significantly weaken the demand for resale properties. Luxury and high-end real estate transactions have also typically involved large cash transactions, with a significant proportion funded from informal sources, and not from banks and other financial institutions. Luxury property rates are therefore expected to decrease as a result of fewer purchasers with significant liquidity. These measures are expected to adversely affect investors in projects with insufficient audit and KYC funding procedures.

Automobiles and Ancillary

These demonstration measures are expected to impact cash transactions pin the automobile industry pin India, particularly for two-wheelers, used vehicles and other secondary automobile and auto ancillary industries. These measures may indirectly affect DEMs as well as potential automobile customers may find sale of older vehicles more challenging as a result of the reduced liquidity. In particular, these measures are expected to significantly affect rural and semi-urban regions, as well as tier 2 and 3 cities and towns that cater largely to the two-wheeler are used vehicle markets primarily driven by cash transactions. While DEMs and auto component suppliers continue to monitor memories, automobile dealers have focused on funding initiatives with banks and other financial institutions in order to offer schemes for cashless purchases and zero down payments. The short term impact of these initiatives on the automobile, auto ancillary and related industries, including and vehicle financial institutions focused on these markets, has been significant.

Although the comprehensive long term impact of these demonetization measures cannot be fully ascertained at this stage, the overall economy is expected to benefit from a decrease in unaccounted cash transactions and an elimination of counterfeit currency notes, leading to more effective tax collection and increased in transparency is also likely to improve attractiveness for foreign investors, while higher bank deposits and formalizing large hitherto unaccounted for income streams is expected to improve the fiscal deficit of India.

Demonetisation messes with holiday plans

It's that time of the year when families save just come back from a vacation or are planning a minibreak. This time around through, following demonetisation, tour bookings have seen a dip, say travel agents. "Booking have not yet completely picked up. Enquiries are coming in from honeymooning, couples and corporate travel will pick

up from February, but there is a 30 to 40 per cent dip compared to last year. November to January is our peak season as families and couples book for Christmas. New Year and weekends away and this was hit." said Pawan Gupta, managing director, PK Holidays.

Priya Menon, owner, Aaditya Tours and Travels, said that booking were still not yet full-fledged. "We have seen a 10 per cent drop from last year," she said, "We had some cancellations after demonetisation and there has been approximately a 25 per cent drop in business compared to last year," said Venkatraman Suresh, senior manager. Akshaya India Tours and Travels. Things were picking up slowly, he said. Since international travel packages are often booked a month or month and a half in advance, fewer travellers are going abroad, said Tushar Jain, managing partner. Roundrip.in "From November 10 to December 10, travel was severely hit, but since then, it has been improving," he said. Some travellers who may have gone abroad are looking at domestic options, said Tejas Gupta, director. Travel Air Madras, "people who had decided to go are continuing to do so but new queries have reduced," he said. Currency exchange restrictions had impact inbound tourism, agents aid, In November, UK, Canada and Australia had updated their travel advisories to citizens warning them not to accept notes taken out of circulation and to expect long lines at banks and ATMs. The Canadian, website, updated on December 7, sates, "If you plan to travel to India, do not depend on cash as the sole method of payment." The Australian government's website cautioned similarly, while the U.K. advisory, updated on December 31, advised travellers to use debit or credit cards.

Demonetised notes pour into TTD temple hundis

The hundis of temples managed by the Tirumala TirupathiDevasthanams (TTD) are receiving an all-time high collection of cash offerings from devotees, as the nation approaches the December 31 deadline for exchanging or deposited currency notes of Rs. 100 and Rs.500. The TTD temple in Chennai has received Rs.2.13 crore which is the highest ever cash offering from devotees in a short span of 18 days from November 1. The hundi collections included foreign currency, gold and silver, the quantum of which is being valued.

"The usual hundi collection in the Chennai Temple is between Rs. 80 Laksh to Rs 1 crores per month. But the offerings crossed Rs.2 crores in just 18 days. The same trend is happening at Tirumala the abode of Lord Sri Venkateswara," TTD Board Member J.Sekhar told The

Hindu' on Sunday. Comparing the hundi offerings between November 1 and 18 in 2015 with the corresponding period in 2016 at Tirumala, he said the number of Rs.1,000 denomination notes went up by 45,000 (Rs. 4.5 crore), Rs. 500 by one Lakh (Rs. 5 crore) and Rs.100 by 9 lakh (Rs.9 crore). The frequency of replacing filled hundi had increased.

Parrying questions on whether the increased cash offerings were due to the demonetisation of Rs.1000 and Rs.500 notes, Mr. Sekhar said there was no perceptible increase in the number of devotees, but the quantum of offerings had gone up. However, devotees desirous of making cash contributions in person directly to the TTD management would have to issue a cheque or demand draft, Mr.Sekhar added.

Conclusion

The common perception among people living in urban areas (since I am from Mumbai) is that demonetisation has had a very good fallout for the PM and NDA because of the concept of relative deprivation. People are inconvenienced but are willing to suffer it because others have lost so much more, each newspaper story which cites the crores unearthed from others, makes people happy! All the

income tax raids provide people with vicarious pleasure. Very negative kind of satisfaction.

But such is human nature! In rural areas, people transact in smaller currencies, Rs 50 and Rs 100. The instances of those villagers who've lost their life savings are very rare. In rural India even the housewives and grandmothers save in small currency. As for the poor, 50 percent of the undisclosed income now being put into banks is going to be used for schemes for the poor, so the poor are not too unhappy.

In total demonetisation has had the desired effect and that is to reassure the Indian public that the govt is serious about tackling corruption and is concerned about the condition of the poor.

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DEMONETIZATION – A SIGN OF ECONOMIC REFORM IN INDIA

Dr. V. Sriman Narayanan

*Assistant professor, Department of Economics & Centre for Research in Economics,
The Madura College, (Autonomous), Madurai*

V. Saminathan

*Ph.D Research Scholar (Full Time), Department of Economics & Centre for Research in Economics,
The Madura College (Autonomous), Madurai*

Abstract

Demonetization is nothing new for India. Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is change of national currency the old unit of currency must be retired and replaced with a new currency unit. Demonetization helps to find out the hurdles of national development. Major hurdles of the economic development of a country are Black Money, corruption, terror funding counterfeit money, and tax evasions. All of these hurdles measurement is cashless economy. Necessity is the mother of invention. Herein lies the importance of the crucial and game – changing role the youth and other digitally literate education the illiterate and semi-literate men and women in the use of mobiles and digital platforms for money transactions. This would give an opportunity for providing a huge thrust to the digital economy and reap a bouquet of benefit the world accrue from such an all encompassing transformation the country is going to witness in the days and months to come. The positive cascading effect would give a major fill up to our formal economy can help improve the country's GDP in the long run. The idea of demonetization is good people of India come under the banking system so the knowledge about and which is the safest place for money is known by the people.

Key words: *Demonetization, Counterfeit currency, cascading effect*

Introduction

Prime Minister Narendra Modi has announced the trail-blazing-decision to withdraw old Rs.500, Rs 1000 currency notes no longer a legal tender from midnight, 8th November 2016. The RBI will issue two thousand rupee notes and new notes of Five hundred rupees which will be replaced in circulation from 10th November 2016 stated by Prime Minister. This measures has been taken by the Prime Minister. In attempt to address the resolve against corruption, black money, terror funding, counterfeit notes. Demonetization is nothing new for India. Highest denomination notes ever printed by Reserve Bank of India were Rs. 10,000 in 1938 and again in 1954 which were subsequently demonetized in January 1946 and in 1978 respectively. In fact, in 1978 notes of Rs.1000, Rs.5, 000 and Rs.10, 000 demonetized were demonetized the Rs.10, 000 in 1938 and again in 1954 which were subsequently demonetized up January 1946 and in 1978 respectively. In fact, in 1978 notes of Rs. 1,000 Rs.5, 000 and Rs.10, 000 denominations were demonetized. The Rs.1000 note made a comeback in November 2000 and rises 500 was introduced in India Rs 2000 are for the first time introduced by the present government. This paper attempts to explain the objectives of demonetization and prospects of Indian Economy to reduce corruption.

Prospects of Indian economy

Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is change of national currency the old unit of currency must be retired and replaced with a new currency unit. Demonetization helps to find out the hurdles of national development. Major hurdles of the economic development of a country are Black Money, corruption, terror funding counterfeit money, and tax evasions. All of these hurdles measurement is cashless economy. Therefore, the government has to strengthen the digital payments model to generate the long-term benefits in terms of reduced corruption and greater formalization of the economy. It tries to encourage a less-cash society.

Objectives

Apart from turning out to be the biggest economic reform in independent India, this revolutionary measure is making it incumbent upon everyone to embrace and promote digital platforms for money transactions. Necessity is the mother of invention. Herein lies the importance of the crucial and game – changing role the youth and other digitally literate education the illiterate and

semi-literate men and women in the use of mobiles and digital platforms for money transactions. This would give an opportunity for providing a huge thrust to the digital economy and reap a bouquet of benefit the world accrue from such an all encompassing transformation the country is going to witness in the days and months to come. The positive cascading effect would give a major fill up to our formal economy can help improve the country's GDP in the long run.

Support and the guide lines

As the country is passing through this momentous phase, making a tectonic shift, it is out good fortune that most Indians - be they illiterate or literate, or poor, rural or urban dwellers – are lending their whole hearted support to the Government drive against black money and corruption. At this juncture, one should salute the common Indian for bearing this temporary inconvenience with fortitude and patience in the larger interest of the country. The central Government agenda for moving towards digital transfer of money is the need of the hour wherein day-to-day transactions take place without cash. Yes, in a society as layered and complex as ours, the challenges that lie ahead are many, but the guidelines has been laid out in a statesman-like fashion by the Prime minister.

The government on its part has suggested various measures for people to move towards a less-cash economy. Transactions in physical currency would gradually come down as more and more people switch over to digital currency.

An important aspect that should be noted here is that India has the highest use of cash in the world, accordant to MasterCard report. It is apparent that such high use of cash would only strengthen the countries in formal economy, which is not in the larger interest of the nation. Reduced use of cash would choke the grey economy; curb money laundering and result in increased tax collections to the government's offers. All this would ultimately benefit the common man, as a less cash economy would plug loopholes in the public system.

Conclusion

The idea of demonetization is good people of India come under the banking system so the knowledge about and which is the safest place for money is known by the people. Especially the cashless transaction boosts the economy. There is no expense of providing currencies are possible, so the printing costs and supply of money to the particular banks cost is nothing so the public finance will be increase. The increasing public finance helps to the public welfare of a country. Cashless transaction helps to find out the tax evasions control the high interest rate of money lenders.

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DEMONETIZATION OF SIGNIFICANCE AND CHALLENGES

Dr.S.Karthikeyan

*Assistant Professor, Department of Economics and Centre for Research in Economics,
The Madura College (Autonomous), Madurai*

I.Ramakrishnan

*Research Scholar (Full-Time), Department of Economics and Centre for Research in Economics,
The Madura College (Autonomous), Madurai*

Abstract

Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit. The demonetisation was done in an effort to stop the counterfeiting of the current banknotes alleged to be used for funding terrorism and for cracking down on black money in the country. Following the announcement by the Prime Minister the Governor of the Reserve Bank of India (RBI), Urjit Patel made a press release with details on the procedure for exchanging the 500 and 1000 rupee notes that are currently in circulation. On 8 November, other than the notification that these denomination will be discontinued. The present study has been deals with the announcement of demonetization of currency notes (500, 1000) its needs and challenges faced by the society. Secondary data has been used for study which is collected from different newspapers and websites. Hence, it can be concluded that apart from disrupting daily lives of the common citizen, there are even bigger implications for the economy as a whole.

Keywords: *Demonetisation, currency notes, RBI, Exchange of Currency.*

Introduction

Demonetization is the act of shedding a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit. The coins issued under the authority of Section 6 of The Coinage Act, 2011, shall be legal tender in payment or on account i.e. provided that a coin has not been defaced and has not lost weight so as to be less than such weight as may be prescribed in its case:

- Coin of any denomination not lower than one rupee shall be legal tender for any sum.
- Half rupee coin shall be legal tender for any sum not exceeding ten rupees.

Every banknote issued by Reserve Bank of India (Rs.2, Rs.5, Rs. 10, Rs.20, Rs.50, Rs.100, Rs.500 and Rs.1000) shall be legal tender at any place in India. The demonetisation of 500 and 1000 rupee banknotes is a step taken by the Government of India in November 2016 to fight corruption and black money issues in the country. In 2000, Anil Bokil, Chairperson of ArthKranti Sansthan, had proposed the government ban Rs 500 and Rs 1,000 notes to curb black money and corruption. Bokil wrote newspapers articles about his proposals and made many presentations to Government officials. Soon to be Prime Minister Dr. Manmohan Singh heard his speech in 2003. In

2013, when Bokil met then Bharatiya Janata Party Prime Ministerial candidate Narendra Modi, he realised Modi meant business. After that meeting, Bokil met Modi four times to explain how black money can be curbed. On Tuesday, November 7, Modi announced that the Reserve Bank of India would demonetise Rs 500 and Rs 1,000 notes. Starting from midnight of 8 November 2016, all 500 and 1000 rupee notes ceased to be accepted as a form of legal tender in India. The announcement was made by the Prime Minister of India Narendra Modi in a live televised address to the nation at exact 8:15 pm IST the same day. In the announcement, Modi declared circulation of all 500 and 1000 rupee banknotes (approximately \$7.50 and \$15 USD respectively) of the Mahatma Gandhi series as invalid and announced the issuance of 500 and 2000 rupee banknotes (approximately \$7.50 and \$30 USD respectively) in the new Mahatma Gandhi series in exchange for the old banknotes.

The demonetisation was done in an effort to stop the counterfeiting of the current banknotes alleged to be used for funding terrorism and for cracking down on black money in the country. Following the announcement by the Prime Minister the governor of the Reserve Bank of India (RBI), Urjit Patel made a press release with details on the procedure for exchanging the 500 and 1000 rupee notes that are currently in circulation.

Demonetization Game

1946: Rs1,000, Rs5,000, and Rs10,000 notes were taken out of circulation in January 1946. The Rs10,000 notes were the largest currency denomination ever printed by the Reserve Bank of India, introduced for the first time in 1938. All three notes were reintroduced in 1954, 1977: The Wanchoo committee (set up in 1970s), a direct tax inquiry committee, suggested demonetization as a measure to unearth and counter the spread of black money. However, the public nature of the recommendation sparked black money hoarders to act fast and rid themselves of high denominations before the government was able to clamp down on them. The High Denomination Bank Notes (Demonetisation) Act deemed the Rs 1,000, Rs 5,000 and Rs 10,000 notes illegal for the second time. At the time, then-RBI governor I.G. Patel disagreed with the measure.

Recommendations of Sit

(I) Cash Transactions

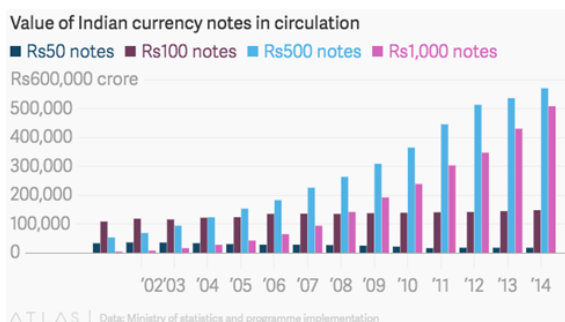
The SIT has felt that large amount of unaccounted wealth is stored and used in form of cash. Having considered the provisions which exist in this regard in various countries and also having considered various reports and observations of courts regarding cash transactions the SIT felt that there is a need to put an upper limit to cash transactions. Thus, the SIT has recommended that there should be a total ban on cash transactions above Rs. 3, 00,000 and an Act be framed to declare such transactions as illegal and punishable under law.

(II) Cash Holding

The SIT has further felt that, given the fact of unaccounted wealth being held in cash which are further confirmed by huge cash recoveries in numerous enforcement actions by law enforcement agencies from time to time, the above limit of cash transaction can only succeed if there is a limitation on cash holding, as suggested in its previous reports. SIT has suggested an upper limit of Rs. 15 lakhs on cash holding. Further, stating that in case any person or industry requires holding more cash, it may obtain necessary permission from the Commissioner of Income tax of the area. With full backing, for the third time, India participated in the process of demonetization. RBI governor, Urjit Patel applauded Modi's "very bold step" which addresses concerns about the "growing menace of fake Indian currency notes."

Impact of Demonization Announcement

A better sense of this can be gauged from this graph below. As you can see, the monetary value of Rs500 and Rs1,000 notes in circulation far outstrips any other denomination.



Source: Data Ministry of statistics and Programme Implementation RBI.

Putting it simply, at the stroke of midnight, a little over 80% of the cash in India (by value) will be worthless pieces of paper. With these notes now going out of circulation overnight, the government has created a solid opportunity to clean up the system. Currently India's black money economy is about 20% of its GDP, according to estimates from Ambit Research. Apart from cash, Indians also hoard wealth worth over billions of dollars in the form of gold.

Challenges Ahead

- ✓ The government should come up with additional economic stimulus to offset the dampening effect:
- ✓ Accelerated reduction in corporate income tax along with withdrawal of exemptions;
- ✓ Ending uncertainty on GAAR and retrospective taxation or any other blockbuster measure that they might be working on, that would offset the initial adverse economic impact.
- ✓ Assess Black Money better: There's no good estimate for how much of India's black money is in forms other than currency/physical notes such as gold, jewellery, land or any other form of wealth. Therefore, while banning Rs 500 and Rs 1,000 notes will tackle the black money that is in the form of hard cold cash, it won't affect other forms of black money.
- ✓ Prepare for the challenges of cashless economy: The UPI (unified payment interface) system is likely to be fully operationalised only by January 2017. India was recently hit by one of its biggest financial security breaches compromising hundreds of thousands of debit cards.

Conclusion

With a view to curbing financing of terrorism through the proceeds of Fake Indian Currency Notes (FICN) and use of such funds for subversive activities such as espionage, smuggling of arms, drugs and other contrabands into India, and for eliminating Black Money which casts a long shadow of parallel economy on our real economy, it has been decided to cancel the legal tender character of the High Denomination bank notes of Rs.500 and Rs.1000 denominations issued by RBI till now. The timing of the announcement has been somewhat of a surprise. Would it have not been better to wait until then, if this move was to also spur India's shift towards a cashless economy which is real solution. On the other hand, if this had been announced in advance it could have been self-defeating in nature; allowing holders of black money to convert their cash for gold or other forms of wealth instead. Apart from disrupting daily lives of the common citizen, there are even bigger implications for the economy as a whole. Politics and various elections are known to run on cash. Same is the case with sectors such as real estate. The rural areas in particular, which do not have formal sources of banking, also deal largely in cash. Unorganised labour, including in urban households, such as domestic workers and drivers, are paid in cash, and mostly in these denominations.

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DEMONETIZATION IN INDIA: FACTS AND IMPACTS

M.Deepan

Ph.D Research Scholar, PG & Research Department of Economics, Thiagarajar College, Madurai

Abstract

The demonetization of the 500 rupee note and the 1,000 rupee note—the two highest currency denominations available in India—will likely hit the economy hard in the short term. India's demonetization initiative, creates long lines of people looking to exchange notes still spew out of banks, some sectors of the economy continue struggling with the lack of readily available cash, grassroots businesses are still being revolutionized with electronic payment capabilities, and masses of people continue transitioning towards new ways of paying for basic goods and services. In the previous day Many countries are announced their currency as demonetization and maximum of countries are get failure but India's nature is differ from other economy so this historical move definitely bring positive changes in Indian economy.

Keywords: Denomination, Electronic Payment and Revolution.

Introduction

On Nov. 8, 2016 86% of monetary of India was nullified in a great demonetization effort that aimed to clean out the black market's cash supply and counterfeit notes which completely disrupted the social, political, and economic spheres of the world's second largest emerging market. The demonetization of the 500 rupee note and the 1,000 rupee note—the two highest currency denominations available in India—will likely hit the economy hard in the short term. India's demonetization initiative, creates long lines of people looking to exchange notes still spew out of banks, some sectors of the economy continue struggling with the lack of readily available cash, grassroots businesses are still being revolutionized with electronic payment capabilities, and masses of people continue transitioning towards new ways of paying for basic goods and services.

Prime Minister Modi's demonetization initiative caused a sudden breakdown in India's commercial ecosystem. Trade across all facets of the economy was disrupted, and cash-centric sectors like agriculture, fishing, and the voluminous informal market were virtually shutdown, with many businesses and livelihoods going under down trend completely THE MAIN AIM OF THIS PAPER IS TO focuses and highlights the facts and impacts of demonetization in India in 2016

Previous experience of India on Demonetization

India has done this before. In 1946, all 1,000 and 10,000 rupee notes were recalled. On this period India is under the control of British colonization. Main reason for announcement of demonetization in 1946 is crush high

inflation and value of the demonetized currency was very high. In 1978, 1,000, 5,000, and 10,000 rupee notes were demonetized. Because to reduce the black money and hoarding of money done by few peoples

Reason for Announcement of Demonetization

Reasons for Prime Minister Modi's masterstroke announcement of demonetization of high valued currency are to reportedly destroy the base of corruption in India. In this single move, the Government has attempted to tackle the three issues affecting the economy i.e. a parallel economy, counterfeit currency in circulation and terror financing. These are major issues restricting the free an developmental path of a countries not only India. In 2004 India's Black Money was estimated that 4 to 7 per cent. But it was get Himalayan increase of 22.3 per cent in 2016 it was estimated as one fourth of India's total Money circulation. It was unaccounted transaction money of Indian Economy.

India's Economic Growth Vs Demonetization

At the time of Indian government announcement of demonetization was in safe period. Because of India growth in this period was sustained and agricultural sectors are also contributed more in this period. After this demonetization announcement Growth in the Indian economy remained solid in the quarter from April to June 2016 (a financial year begins in April and ends in March of the following year). The previously mentioned quarter is the first quarter of fiscal year 2016–2017. During that period, the GDP (gross domestic product) rose 7.1%, while

the GVA (gross value added) rose 7.3%. The relationship between the GDP and GVA is:

$GDP = GVA + \text{taxes on products} - \text{subsidies on products}$

*The base year for calculating the GVA is 2011–2012.

The fall in economic activity due to demonetization could last from two to three quarters. As a result, GDP and GVA growth in the quarters from September to December 2016 and January to March 2017 could be significantly lower than previous years. Some bounce back should be seen in the first quarter of fiscal 2017–2018. In the medium term, the Indian economy can grow considerably after curbing the debilitation caused by counterfeit money and an increase in economic activity.

Impact of Demonetization

Real Estimate

The demonetization that has been in effect since November 9 is expected to have a negative impact on inflation. Consumer spending activity fell to a near halt. Consumers are refraining from making any purchases except essential items from the consumer staples, healthcare, and energy segments. Activity in the real estate sector, which includes a lot of cash and undocumented transactions, slowed down significantly. Metropolitan and Tier 1 cities reported up to a 30% fall in house prices.

Food Products Inflation

Food item inflation, measured by changes in the Consumer Food Price Index, accounts for 47.3% of the overall CPI. Due to 86.4% of the value of the currency notes in circulation going out of the financial system and re-monetization being slow, the supply and demand of food items fell. It will exert more downward pressure on inflation. The move is expected to extinguish the unaccounted money in the system and would not only reduce the liabilities of the government but would add to its finances. This would help the government spending on large infrastructure projects, thus pushing the Economic cycle.

Demonetization is expected to have a 'habit-changing' effect on the Indian citizens. People would now prefer keeping cash in banks rather than keeping it at home/lockers. This would boost bank's CASA ratio (current and saving account), reduce the cost of funds and help bank's NI (non inferiority) margins.

Public Review

The move is likely to lead to better tax compliance, raise the Tax to GDP ratio and improved tax collection. This could lead to lower borrowing and better fiscal

management. Also, with lower cash transactions in the near term, inflation may see downtrend in the near term.

Prices of Consumer Goods

Price level is expected to lower due to moderation of demand. In consumer goods, prices are expected to fall marginally as use of cards and cheques would compensate to a large extent. However, for real estate and property, the prices are largely expected to fall, especially in sale of properties where major part of transaction is done in cash rather than other mediums. With cash transactions facing a reduction, alternative forms of payment will see a tremendous surge in demand. Digital transaction systems, E-wallets (like PayTM, Freecharge etc) and apps, online transactions using E-banking, usage of Plastic money (Debit and Credit Cards), etc. will definitely see substantial increase in demand. With improved monetary transmission, economic efficiency and structural moderation in currency in circulation, there is likely to be a greater room for the RBI to ease monetary policy rate further.

Conclusion

So far, it can be said that this is a historical step and should be supported by all one should look at the bigger picture which will definitely fetch results in the long term. This is what the people have been asking for a long time which has finally happened. In the previous day Many countries are announced their currency as demonetization and maximum of countries are get failure but India's nature is differ from other economy so this historical move definitely bring positive changes in Indian economy.

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EFFECTS OF DEMONETIZATION IN INDIA 2016

M.Suresh

M.Phil., Scholar in Economics, Raja Doraisingam Government arts College., Sivagangai

Abstract

On 8 November 2016, India's Prime Minister Narendra Modi announced the Government of India's decision to cancel the legal tender character of 500 and 1,000 banknotes with effect from 9 November 2016. He also announced the issuance of new 500 and 2,000 banknotes in exchange for the old banknotes. These demonetization measures have had significant and immediate impact on the state of the Indian economy. These measures are also expected to result in long-term impact on certain industries and sectors. These measures have resulted in a significant decrease in liquidity in the short term, which is expected to ease gradually with the introduction and circulation of the new currency notes.

Key words: national security, foreign currency, liquidity, debit card.

Introduction

The government has implemented a major change in the economic environment by demonetising the high value currency notes – of Rs 500 and Rs 1000 denomination. These ceased to be legal tender from the midnight of 8th of November 2016. People have been given upto December 30, 2016 to exchange the notes held by them.¹ The proposal by the government involves the elimination of these existing notes from circulation and a gradual replacement with a new set of notes. In the short term, it is intended that the cash in circulation would be substantially squeezed since there are limits placed on the amount that individuals can withdraw. In the months to come, this squeeze may be relaxed somewhat. The reasons offered for demonetisation are two-fold: one, to control counterfeit notes that could be contributing to terrorism, in other words a national security concern and second, to undermine or eliminate the "black economy".

Implementation of Measures

- Exchange of old currency notes for new 500 and 2,000 currency notes has been permitted until 31 December 2016 (i.e. 50 days from the date of the announcement)
- Such currency exchanges have been limited to certain specified amounts announced from time to time and excess amounts are required to be deposited with banks subject to applicable KYC requirements
- Cash withdrawals have been limited to ensure adequate supply of new currency notes
- Usage of old currency notes has been permitted for certain specified periods and purposes, such as at

hospitals and pharmacies, gas stations and foreign currency exchange for tourists. The demonetization of the highest denomination currency notes is part of several measures undertaken by the government to address tax evasion, counterfeit currency and funding of illegal activities. The requirement to deposit currency notes in excess of specified limits directly into bank accounts has resulted in the declaration of hitherto unaccounted income, subject to higher tax and other penalties.

General Impact

These demonetization measures have had significant and immediate impact on the state of the Indian economy. These measures are also expected to result in long-term impact on certain industries and sectors. These measures have resulted in a significant decrease in liquidity in the short term, which is expected to ease gradually with the introduction and circulation of the new currency notes. As a result of these measures and increased deposits with banks, the bank deposit base has increased significantly, and financial savings are expected to increase as a result of the shift from unproductive physical asset based savings to interest-bearing financial assets. This, in turn, is expected to enhance the liquidity position of banks, which can be leveraged for lending purposes.

An increase in the deposit base may also enable banks to lower the blended cost of funds as higher CASA (current accounts, savings accounts) deposits enable replacement of higher borrowing costs and decrease overall cost of funds. With cash transactions impacted by a decrease in liquidity, alternative payment methods, such as e-wallets, online transactions using e-banking, debit and

credit card usage have increased significantly. This will increase usage of such payment systems, and enable a shift towards an efficient cashless infrastructure. Reduced liquidity has also caused a sharp decline in the availability of disposable income, affecting spending patterns and consumption trends in the economy in the short term. These trends, together with certain industry-specific issues discussed below, are expected to affect India's GDP growth rates adversely in the fiscal year ending March 31, 2017. While rating agency Fitch has projected a decrease in India's GDP growth by approximately 50 basis points, other projections peg India's GDP growth rate for fiscal years ending March 31, 2018 and 2019 lower by approximately 30 basis points. These forecasts indicate that an upgrade of India's credit ratings for the next two years remains unlikely, although India's current sovereign credit rating of 'BBB-' is expected to remain steady in the long term.

Impact on Key Sectors

Real Estate and Construction

The real estate sector in India has traditionally involved a significant level of informal funding in the form of cash transactions. As the demonetization measures are expected to result in decreased informal funding sources, the real estate sector is expected to be adversely affected. Cash transactions are most common in secondary sales, and resale transactions are expected to decline. While these measures are expected to in the long term promote transparent pricing in the real estate sector, decreased liquidity resulting from lower informal funding sources is expected to significantly weaken the demand for resale properties. Luxury and high-end real estate transactions have also typically involved large cash transactions, with a significant proportion funded from informal sources, and not from banks and other financial institutions. Luxury property rates are therefore expected to decrease as a result of fewer purchasers with significant liquidity. These measures are expected to adversely affect investors in projects with insufficient audit and KYC funding procedures.

A decline in resale property rates is also expected to adversely affect real estate investors that intend to leverage existing real estate investments for investment in new projects. In turn, this is expected to affect the primary market as funding new projects become more challenging, and is also expected to affect industries related to the real estate, infrastructure and construction sectors, such as the steel and cement industries. The real estate market is

however expected to stabilize with the increase in bank deposits, gradual stabilization in banking operations and resultant lower cost of funds. Large institutionalized real estate developers are however not expected to be directly affected by such demonetization measures. Since infrastructure development projects are typically part funded by the government, these measures are not expected to impact such projects directly. However, the unorganized and middle tier real estate developers that in the past were predominantly dependent on cash funding are expected to increasingly rely on institutional investors for funding projects. These institutional investors may also be more inclined to invest in the real estate sector now compared to that in the past, with a more transparent pricing structure and anticipated stability in the medium and long term. The long term impact of these demonetization measures on the real estate sector is expected to be positive, and complement other measures undertaken by the Government of India, including the introduction of the Real Estate (Regulation and Development) Act, 2016 (**RERDA**) and the implementation of the Benami Transactions (Prohibition) Act, 1988 (**BTPA**). The RERDA contemplates the establishment of the Real Estate Regulatory Authority (**RERA**) to regulate residential and commercial real estate transactions. It requires all real estate projects involving land exceeding a specified area to be registered with the RERA. In order to ensure appropriate application of earmarked project funds, it also requires developers to maintain a significant percentage of the project funds in a dedicated account. The BTPA prohibits property transactions, including transactions undertaken for and on account of a third party beneficiary funding such transaction, irrespective of complicity of the named owner; such transactions are now subject to criminal penalties as well, and the relevant property may be subject to confiscation

Automobiles and Auto Ancillary

These demonetization measures are expected to impact cash transactions in the automobile industry in India, particularly for two-wheelers, used vehicles and other secondary automobile and auto ancillary industries. These measures may indirectly affect OEMs as well as potential automobile customers may find sale of older vehicles more challenging as a result of the reduced liquidity.

Conclusion

Although the comprehensive long term impact of these demonetization measures cannot be fully

ascertained at this stage, the overall economy is expected to benefit from a decrease in unaccounted cash transactions and an elimination of counterfeit currency notes, leading to more effective tax collection and increased transparency in ascertaining transaction costs. An increase in transparency is also likely to improve attractiveness for foreign investors, while higher bank deposits and formalizing large hitherto unaccounted for income streams is expected to improve the fiscal deficit of India.

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IMPACT OF DEMONETIZATION IN SERVICE SECTOR IN INDIA

M.Lalitha

M.Phil Scholar in Economics, Raja Doraisingam Government Arts College, Sivagangai

Abstract

The banks too might have a transition issue to deal with. Banks would have a model of the fraction of deposits that they can safely lend without an excessive risk of withdrawal of the amount. This is important since, while banks can borrow money from the call money market, the costs of such borrowings can be large. These models, however, might need to be altered in the new regime since the character of the new deposits that come into the bank would be different from the pre-existing deposits. In the latter, while a fraction of the deposits would be for transactional purposes – e.g. salary earners – another fraction would be depositing only savings into the account. By eliminating high value currency notes, these agents who were operating through cash, would now have to move to non-cash instruments and hence, the balances in their accounts would not be savings but transaction values which will be retained in the account for shorter durations of time.

Key words: money market, fraction

Introduction

The services sector is not only the dominant sector in India's GDP, but has also attracted significant foreign investment flows, contributed significantly to exports as well as provided large-scale employment. India's services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction.

Transition issues for banking sector

a. The banks too might have a transition issue to deal with. Banks would have a model of the fraction of deposits that they can safely lend without an excessive risk of withdrawal of the amount. This is important since, while banks can borrow money from the call money market, the costs of such borrowings can be large. These models, however, might need to be altered in the new regime since the character of the new deposits that come into the bank would be different from the pre-existing deposits. In the latter, while a fraction of the deposits would be for transactional purposes – e.g. salary earners – another fraction would be depositing only savings into the account. By eliminating high value currency notes, these agents who were operating through cash, would now have to move to non-cash instruments and hence, the balances in their accounts would not be savings but transaction values which will be retained in the account for shorter durations of time. The banks therefore would need to re-model their decisions on how much of the deposits can be lent out and

for what duration. It is, for instance possible, that a larger proportion of the deposits would be retained for short-term lending and can even be dedicated to the call money market. Second, while 1/reserve ratio defines the potential maximum amount of credit that can be generated in the economy, the actual credit generation would be defined both by the demand for credit and the extent to which cash intervenes in the functioning of the economy. For instance, if people who receive credit from the bank make payments through cheques alone and they in turn make payments through cheques, then the potential credit creation can be realised. However, if on receipt of payment, the agent withdraws the money to cash and makes payments, only a fraction of the credit/deposit will return to the banking system. Thus, larger is the extent to which cash is used as a means of transacting, smaller is the total credit that can be generated. With a withdrawal of cash from circulation, the deposits will continue to remain in the bank, it would merely shift from account to account or from bank to bank. Thus, even on the earlier deposits, the amount of credit that can be generated would be larger. This is another reason why the banks would need to remodel their investment decisions corresponding to a given level of deposits.

A third issue that might arise as a transition issue is because of the mismatch between people's preferences for cash and the availability of cash. In the interim, until people adjust to the use of non-cash instruments, there would be an increased demand for the cash that is available and that might generate a situation where the agents have to pay a premium to access legal tender. In periods of scarcity of coins for instance, it is commonly known that people pay a

premium to get the change. While this can be considered a transition issue, there are two different implications of such a development:

- i. If the premium on cash is high, it would encourage both the shift to non-cash instruments on one hand, and to informal substitutes of cash on the other.
- ii. This might undermine the confidence that people have in the currency and hence, encourage move to other currencies.

Alternatives to currency: would they evolve in the face of demonetisation?

A number of agents in the economy would be required to move from the informal sector to the formal sector. For these agents as well as for agents who have been operating through the medium of cash and find the transition difficult, certain informal cash substitutes might emerge. For instance, even at present, there are coupons like the SODEXO coupons which are used for paying for certain purchases. These are accepted by a range of establishments in place of formal currency. It is, therefore, possible to see an expanded use of these coupons. The change might induce the generation of other tokens as substitutes for money as well - the agency collecting MCD's green tax has started issuing tokens in place of change. Similarly, for high value transactions one can think of bitcoins and other such crypto currencies on one side and foreign exchange on the other as a mechanism for settling transactions. Perhaps these would not take on a dimension large enough to challenge the official currency, but it can disturb the expectation that the unaccounted economy would be brought into the formal sector since there might exist alternatives to the formal currency. Here it is important to explore the possibility and acceptability of

peer to peer payment instruments – a category which has been evolving in recent times.

Conclusion

The demonetisation undertaken by the government is a large shock to the economy. The impact of the shock in the medium term is a function of how much of the currency will be replaced at the end of the replacement process and the extent to which currency in circulation is extinguished. While it has been argued that the cash that would be extinguished would be "black money" and hence, should be rightfully extinguished to set right the perverse incentive structure in the economy, this argument is based on impressions rather than on facts. While the facts are not available to anybody, it would be foolhardy to argue that this is the only possibility. As argued above, it is possible that these cash balances were used as a medium of exchange. In other words, while the cash was mediating in legitimate economic activity, if this currency is extinguished there would be a contraction.

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IMPACT OF DEMONETIZATION - 2016 IN INDIA

Dr. M.Ganesan

Assistant Professor in Economics, Aditanar College, Tiruchendur

Abstract

Demonetization is not the first time in independent India. Previous Indian governments had demonetized bank notes in January 1946, banknotes of 100 and 1,000 rupees were withdrawn and new notes of 100, 500 and 1000 rupees were introduced in 1954. The Janata Party coalition government had again demonetized banknotes of 1,000, 5,000 and 10,000 rupees on 16 January 1978 as a means of curbing counterfeit money and black money. In the past, the Bharatiya Janata Party (BJP) had opposed demonetization. BJP spokesperson Meenakshi Lekhai said in 2014 that "The men and the women (general population), those who are illiterate and have no access to banking facilities, will be the ones to be hit by such diversionary measures." However, if demonetization of 1946 and 1978 failed, in the 2016 demonetization is successful one to economic development or not and also this study discuss about the problems of demonetization and what are steps taken to succeed?

Keywords: Black money, Demonetization, Hoarding, Legal tender money, Corruption, Fake currency

Introduction

Before discussing the problems of the scheme first we discuss why this scheme is introduced. The incidence of fake Indian currency notes in higher denomination has increased. And for ordinary persons it is difficult to differentiate between the fake notes and the genuine notes, even though no security feature has been copied. These fake notes are being used for anti national and illegal activities. High denomination notes have been misused by terrorists and also for hoarding black money. As India is cash based economy and circulation of Fake Indian Currency Notes continues to be a menace. And to curb this scheme is introduced. The prime Minister announced the issuance of new 500 and 2,000 banknotes of the Mahatma Gandhi New Series in exchange for the old banknotes. However, the banknote demonetization of 100, 50, 20, 10 and 5 of the Mahatma Gandhi Series and 2 and 1 remained legal tender and were unaffected by the policy.

Objectives of Demonetization

Black money is money which is earned through any illegal activity controlled by country regulations. Demonetization is the act of stripping a currency unit of its status as legal tender. The decision was taken to minimize the black money and corruption.

- To stop counterfeiting of the current banknotes allegedly used for funding terrorism.
- To crack down on black money in the country.
- To reduce corruption, the use of drugs, and smuggling.

Impact of Demonetization

In the days following after midnight of 8th November 2016, banks and ATMs across the country faced severe

- Cash shortages with severe detrimental effects on a number of small businesses, agriculture, and transportation.
- People seeking to exchange their notes had to stand in lengthy queues, and
- Several deaths were linked to the inconveniences caused due to the rush to exchange cash.
- Also, following the announcement, the BSE SENSEX and NIFTY 50 stock indices crashed for the next two days.
- Demonetization is not a big disaster like global banking sector crisis of 2007; but at the same time, it will act as a liquidity shock that disturbs economic activities.
- Liquidity crunch (short term effect): liquidity shock means people are not able to get sufficient volume of popular denomination especially Rs 500. This currency unit is the favourable denomination in daily life.
- Welfare loss for the currency using population: The daily wage earners, other labourers, small traders etc. who reside out of the formal economy uses cash frequently. These sections will lose income in the absence of liquid cash. There will be a trickle up effect of the liquidity chaos to the higher income people with time.

- Consumption will be hit: When liquidity shortage strikes, it is consumption reduced and it follows production, employment, growth and tax revenue also adversely affected.
- Loss of Growth momentum- India risks its position of being the fastest growing largest economy: reduced consumption, income, investment etc. may reduce India's GDP growth as the liquidity impact itself may last three -four months.
- Inflation: It will cause deflation in the market as people who have earned money through illegal ways would be afraid to declare the money as they may be prosecuted by the Income tax department on the legitimacy of their income.
- Reduction in Monetary Circulation: This will lead to reduction of money circulation in the economy leading to deflation. Value of money will be increasing and the total money supply will be going down but the commodities and things available in the market have not gone down. It will lead to inflation slowly but not overnight.
- Cash Deposits in Banks: A lot of cash which are legally earned will be deposited in the banks and now the banks with more deposits will be able to do more lending.
- Easy Loans: Loans will become easier and interest rates may come down. As banks will have more money so more loans will be given out which will increase the money supply in the market and it will create inflation.
- People who do not use debit or credit cards, to access the internet or use mobile banking and e-wallets will be the worst hit, said the Deloitte report. India has about 700 million debit and 25 million credit cards, according to this Reserve Bank of India data; about 950 million people (78% of the population), do not have an internet connection

Benefits of Demonetization

- A Direct Attack on Black Money Holders
- Death Knell to Fake Currency Rackets
- End of Terrorist Funding
- End of Counterfeiting
- End of Huge Donations
- Towards a Cashless Economy
- End of Hawala Transactions

Conclusion

The impact is visible in different sub-segments. Demonetization will hurt demand with consumer goods being the worst affected. Demonetization will help in checking artificial inflation in the economy as a significant portion of the black money will be routed to the banking channels and result in accountability. But the problems which are in the long term interest of the country comfortably out weight the benefits and disadvantages. Government need to take all the necessary steps so as to ensure that there will be a smooth flow of currency exchanges. It would turn into chaos if government takes no necessary steps to circulate money correctly. It will make a massive change in our economy. We congratulate the entire government and those hidden brains of our democracy that brought this decision. However its effective implementation will give fruitful results over the period of time.

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