



## Impact of Demonetization of 1000 & 500 notes on Indian Economy

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**Abstract:** Indian Government has attacked on people with black money through the surgical strike by demonetizing the old currency notes but this also causes inconvenience to common people across the nation. In this scenario, businessmen and industrialists need to be very careful. India is a country with cash economy. Most of the people have savings of Rs.500 in home to cope up with daily needs and to tackle some emergency situations. On November 8th 2016, the Prime Minister Narendra Modi declared the invalidation of Rs.500 and Rs.1000 notes as a measure to curb fake currency circulation, black money and corruption. People were asked to deposit their old notes in banks and get new Rs.500 and Rs.2000 notes. People are struggling to get money in smaller denomination, as none of the shopkeepers neither have change nor give change.

**Keywords-** cash economy, demonetization, black money, corruption, fake currency

### Introduction:

Quashing of currency status of the country through a profound monetary step as a legal tender is referred as demonetization. The demonetization of the year 2016 in India is an attempt to curb fake notes and black money by reducing the flow of cash in the system. The year 1946 was the first time when demonetization was introduced by Reserve Bank of India to demonetize Rs.1000 and Rs.10,000 notes. Then new notes of denomination Rs.1000, Rs.5000 and Rs.10,000 were introduced in the year 1954. Then the Moraji Desai government in 1978 demonetized these notes.

Any person/business accepting cash currencies will directly suffer especially poor. In fact those who use their service i.e. common man will suffer the most for few days due to non-availability of lower denominations.

However this won't last longer as banks would be offering extended working hours in addition to working on Saturday and Sunday to ease common man's pain. Almost every local grocery vendor in India accepts cash currencies. So naturally they won't be accepting these two currency notes. And this has been noticed right from day 1. No one is ready to accept the currencies except Rs. 100 and lower denominations. So anyone buying grocery will have to either buy them on credit or give small denominations.

**Transportation:** We all use some form of transportation everyday mainly – auto rickshaw, taxi, buses, cycle rickshaw. All this business will be hit for a day or two especially those who commute longer distances and payment amount is above Rs. 500. So either commuter has to provide smaller denominations or else do not travel or look for some other



alternative; because no one will accept these two most used currency notes.

**Truck transport:** Almost every business is some way or the other dependent on transportation especially trucks. All drivers and middleman have preferred only cash. No credit card/online transfer etc. They will be impacted badly unless and until they are paid in lower denominations.

**Travellers in India:** The decision must have been severely impacted foreigners who might have done foreign exchange and converted their local currency into Indian rupee before coming to India or after landing. Since their exchange amount is high typically above Rs. 10000, they might have been directly given Rs. 500 notes for sure which won't be accepted anywhere. This applies to NRIs as well who have returned to India yesterday and have done forex.

**Daily wage workers:** Almost every industry has to deal with daily wage workers every day who are paid on a per day basis. So these workers earnings will be impacted as contractor or whoever pays them may not have lower denominations available with them. Either workers will have to accept these notes or get paid in lower currencies or get paid at a later date.

**Hotels/Restaurants:** These businesses will also suffer especially those who accept only cash currencies. No lower currencies means no visit to hotel by the customers.

**Stock market:** Anyone buying/selling physical shares typically pays via cash. In

normal scenarios, trading amount is always bigger in quantity and there is no alternative other than paying through lower denominations.

**Fruits and vegetables vendors or other doing similar businesses:** They all accept only cash, provided you are not buying from shopping mall and other places where multiple payment modes are accepted.

**Medical shops:** Medicines are lifelines for the patients. Non-availability of lower denominations or non-acceptance of Rs. 500 & 1000 currency notes will result in either medicines bought on credit/lower denominations or not bought at all due to the ban. Not everyone has Rs. 100 and Rs. 50 or lower currency notes in sufficient quantity.

**Hospitals:** This certainly apart from medical shops will be badly impacted. Patients who are already hospitalized or are under process of getting hospitalized must have done some form of arrangements for money before 08 Nov 2016. They would be badly suffer.

**Real estate:** This market will be the most badly impacted obviously due to black and white money which have been functional since years. Buyer normally pays certain % of money (black money) in cash to the builder/agents and remaining portion is paid via loan. So any deal of the house which was supposed to happen on 09 Nov, 2016 or even after this date will suffer. Because the black money or brokerage paid to agents involve large sum and all paid in cash. So buyer will either have to re-decide on buying the house or home builder or agent will have to accept these banned notes at their own



risk. Or buyer will have to arrange lower denominations and then pay.

**Remote places:** India's remotest places still have no access to banking and its various services. For e.g. northeast regions. People from such regions will suffer. To ensure smooth functioning, SBI has announced cash being airlifted from Calcutta to NE regions so that there is no shortage of Rs. 100 notes.

**Entertainment industry:** Anyone used to buying movie tickets at the counter won't be able to buy tickets if they do not have lower denominations especially multiplexes where ticket prices are high.

**Ecommerce industry:** Although ecommerce is growing at phenomenal rate in India, mode of payments used by Indians is largely cash on delivery. Because of this decision, their sales will slow down. So this will directly impact businesses of mobile phone companies, clothing's, and jewellery especially as they contribute to bigger chunk of online ecommerce market places.

**Insurance industry:** Online transactions for buying insurance is on rise but still higher number of policies are sold offline. Since normal policy premiums are higher in amount, policies won't be sold offline by most of the companies. So those who are not ready to buy online will buy either at a later date or purchase using lower denominations.

There are numerous businesses such as travel agents, ticket booking agents & many others will take a hit.

**The impact of this move on the common man includes:**

**Financial/business impact**

People with large amount of black money are using unscrupulous means to convert it into legitimate currency.

A taxpayer has to stand in queues to withdraw his hard-earned money.

Online companies are having the last laugh as most of the white income class is resorting to online.

Small/medium sized business relying on cash transactions are seeing a total demand collapse.

Gem and Jewellery business will be hard hit.

Real estate prices will fall and the transactions volume will drop.

Banks will be having a tough time. They will be flooded with cash

**Political impact**

BJP will gain tremendously. Modi's portrait could replace Gandhi's portrait in coming time on the walls of government offices.

All parties will join hands to paint the demonetisation scheme as a big scam.

Normal life may be impacted because of demonstrations.

BJP may do reasonably well in Punjab and UP elections.

No cash doles out in elections. Whole electioneering will change forever

**Social impact**



Low-income people have been impacted as their payments are delayed.

Some people may commit suicide.  
Cashiers and bankers will get due respect in society.

Marriages to become cheap. Death of dowry.

All medicines in white money.

Big blow to gambling.

Death of drug mafia and terror networks.

People now know moral status of their peers and neighbours better.

Impact on Indian economy  
GDP will be impacted as consumption will fall -Indirect tax collection may be lower.

Disorganised work to move to organised sector

Demonetisation may benefit India in long term:

Income taxes rates may come down.

Loans will become cheaper.  
Housing will become affordable.

Asset classes  
Bonds prices to increase in the near future

Real estates to fall

Gold rates to fall.  
Equity markets to gain in next six to 12 months

Impact on economy  
Fiscal deficit will come down  
Currency to become stronger  
Industry will become more productive  
Inflation will come down as housing prices will drop and food inflation will come down.  
Tax rates will come down as more people will be in tax net  
Business will be able to borrow at cheaper rates  
FDI to sky rocket  
Social impact  
The society will become more equitable with lesser class distinction.  
Prosecution for people who are engaging in black money.  
Some slum dwellers may actually have to pay taxes and lose their BPL status  
Politics may change forever.

As with all good things, there is a bitter truth here as well. The black money may remerge as now there is Rs 2,000 notes so paying bribes will be much easier. In fact, if the same government does not come to power again, then there is risk of reversal of some of these policies. Bribes may be paid in gold, foreign currency or smaller denomination notes, or through consumer durables. The whole plan may boomerang as there is a complete demand collapse and people lose their jobs in the unorganised sector in the near term. So there is need for strong administration and effective policy framework to make sure these initiatives are implemented in the same nerve as they were intended.

**Conclusion:** The government should have actually performed demonetization in phased manner. That is first the banks can get back notes printed before 2010



and then should have demonetized notes printed between 2010-2016. This may result to curb black money in a disciplined manner and indeed it will not affect the lives of common man. The current situation can be tackled only if the government pumps in the new notes at a faster pace. Because the reduction in new notes in banks is creating a tremendous situation among the people as they are finding it difficult to meet their daily needs. The incidence, structure and level of corruption which is occurring in India will not be impacted by demonetization. The money of hoarders and politicians are handled in offshore, so the chance of the money arriving to India is nil. Having Rs.2000 notes at their disposal will make them happy only. Any measure will have its merits as well as demerits. It should be to an extent that merits should outweigh demerits.

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