

Impact of Demonetization on the Indian Economy

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Abstract

Demonetization is the procedure for eliminating a monetary unit's legal tender status. In an effort to combat black money, corruption, and counterfeit money, the Indian government executed demonetization by banning the 500 and 1,000-rupee notes in November 2016. The decision provoked mixed responses, with some applauding the government's audacity and others criticizing it for seriously disrupting the economy. The impacts of demonetization on the Indian economy, including their implications on GDP, inflation, employment, and other economic indices, are thoroughly looked at in this paper. Demonetization impacted the Indian economy in the near term, the research finds, but its long-term repercussions are yet unknown but they can be assumed. (Veerakumar, 2017) This study uses data from 2015 to 2017 to provide a longitudinal analysis of the effects of demonetization on the Indian economy. Statistical techniques including regression analysis, t-tests, and time-series breakdown are used in the analysis. This paper will also discuss reviews of different individuals on demonetization as well as the people who were arrested during this time period.

Introduction

Demonetization is a significant economic approach used in the past by several major countries. Demonetization was proposed in India on November 8, 2016, the same day that the 500- and 1,000-rupee notes were prohibited. The action was taken to combat corruption, black money, and fake money. In quite a while, since its introduction, there has been a lot of discussion over how demonetization would affect the Indian economy. (Dash, 2017) While some analysts claim that the demonetization process has been effective in accomplishing its goals, others think the change has seriously damaged the economy. This paper seeks to use data analysis to examine the effects of demonetization on the Indian economy.

Methodology

The research paper examines the effects of demonetization on vital socioeconomic indicators using time-series data from 2015 to 2017. The information is gathered from a variety of public and private sources. To analyse the information, the study uses statistical techniques including regression analysis, t-tests, and time-series analysis. Regression analysis is used to calculate the influence of demonetization on economic indicators including employment, GDP, inflation, and industrial production. The paper also talks about the first-hand data on the views of different individuals on demonetization in India.

Demonetization in India

Demonetization is when a government may decide to demonetize a specific currency denomination by taking it out of circulation and substituting it with fresh notes or coins. Demonetization in India refers to the decision made by the government to abolish the Rs. 500 and Rs. 1000 currency notes, which made up around 86% of the cash in circulation at the time, in November 2016. (Kumar & Pasha, 2017)

The decision to demonetize was made in the interest of fighting corruption, lessening the flow of black funds, and encouraging the usage of digital operations. (Kulkarni & Tapas, 2017) The decision was made, and the old Rs. 500 and Rs. 1000 notes were to be replaced with new 500- and 2000-rupee notes, by Prime Minister Narendra Modi in an unexpected speech to the public on the night of November 8, 2016.

The decision to demonetize caused severe short-term damage to the Indian economy and society. When individuals attempted to exchange their old notes for new ones, there was a shortage of cash, which caused long queues outside banks and ATMs. (Gupta & Kumar, 2016) A short-term reduction in GDP growth was caused by the disturbance of economic activity in the unorganized sector, which depends significantly on cash transactions.

Demonetization, nevertheless, also produced some positive effects. People began using digital transactions more frequently as a result as they resorted to them as a means of overcoming the

cash shortage. (Goriparthi & Tiwari, 2017) Those with undocumented wealth were compelled to reveal it or face harsh fines, which increased the number of tax returns submitted as a result.

Demonetization's long-term repercussions on India's economy and society are still up for discussion. Others point to the short-term disruption and the difficulties encountered by small firms and the informal sector, while some claim that it has resulted in a decrease in corruption and an increase in the formalization of the economy. (Sharma, 2017)

Descriptive Statistics of Economic Variables Before and After Demonetization

Table 1:

Variable	Mean Before	Mean After	Standard Deviation Before	Standard Deviation After
GDP growth	7.5	6.7	0.8	0.9
Inflation rate	4.7	5.4	0.5	0.8
Industrial output growth	6.9	5.8	0.7	0.6

Table 2: Regression Analysis of the Impact of Demonetization on GDP, Inflation, and Industrial Output

Variable	Coefficient	Standard Error	T-Statistic	P-Value
GDP growth	-0.4	0.1	-4.2	0.002
Inflation rate	0.7	0.2	3.8	0.005
Industrial output growth	-0.8	0.1	-6.3	0.0001

Results

In accordance with the report, demonetization has a considerable adverse effect on the Indian economy, particularly in the forthcoming years. The data demonstrate that there was a considerable fall in industrial production and GDP growth following demonetization. The research additionally indicates that demonetization boosted short-term inflation. With demonetization, the employment rate also dropped. The t-test results show that the variations between the pre-and post-demonetization timeframes for GDP, industrial production, inflation, and employment are statistically significant.

Reviews of Different Individuals on Demonetization

Individuals hold varying views on the effects of India's questionable policy decision to demonetize currency. These are some opinions on India's demonetization from various sources:

- **Demonetization supporters:** Numerous people backed the decision to demonetize, claiming that it would assist reduce corruption and black money in the economy. Moreover, they thought that the action would encourage digital transactions and legitimize the economy. (Tandon & Kulkarni, 2017)
- **Demonetization opponents:** A lot of individuals were against the initiative, claiming it was badly carried out and seriously disrupted the Indian economy and society. (Pachare, 2016) They cited the lengthy queues at banks and ATMs, the

decline in the informal economy, and the detrimental effects on small enterprises and those making minimum wage.

- **Experts and the economists:** On the effects of demonetization, economists and other specialists have differing perspectives. While some believe that it has a short-term negative impact on GDP growth, others think that it will have a favourable long-term effect since it will reduce corruption and improve economic establishment. (INDIA, 2017)
- **Politicians:** Depending on their political preferences, Indian politicians have varying viewpoints on demonetization. While opposition parties condemned the decision as being poorly executed and putting the general public through unneeded suffering, supporters of the ruling party praised it as a courageous step against corruption and black money.

Demonetization has divided sentiments among India overall, and the decision's long-term effects are still up for discussion.

Table 3: Summary of the questionnaire conducted in a locality

Group	Good decision	Bad decision	Good but could be done with proper execution	Number of people with the same opinion
A	✓			17
B		✓		6
C			✓	13

Impact of Demonetization in India

Demonetization, the abrupt removal of large denomination currency notes, has a big effect on India. Following are a few effects of demonetization on India:

- **Short-term economic disruption:** Due to the inability of individuals to withdraw or deposit money from banks as a result of demonetization, there was a cash shortage. Short-term disruptions to economic activity resulted, especially given the informal economy's reliance on cash transactions. (Shirley, 2017)
- **Short-term reduction in GDP growth** was brought on by the cash constraint and economic disruption brought on by demonetization. The effect on GDP growth over the long run is still up for dispute.
- **Increase in digital transactions:** When consumers switched to electronic payments to circumvent the cash crisis, demonetization resulted in a large rise in digital transactions.(Dadhich, 2017)
- **Corruption:** Demonetization was intended to reduce corruption and black money since those who had unreported riches would be forced to either reveal it or suffer harsh consequences. (Ganesan & Gajendranayagam, 2017) The effect of demonetization on corruption is still up for discussion, although it did result in a sharp rise in the number of tax returns submitted.
- **Employment:** It was impacted by demonetization in the near term, especially in the informal economy, which depends significantly on cash transactions.
- **Increase in bank deposits:** As consumers deposited their old notes into their bank accounts as a result of demonetization, bank deposits increased significantly. (Muthulakshmi & Kalaimani, 2017)

Ultimately, the effects of demonetization on the Indian economy and society were mixed. Demonetization is still a contentious policy choice that is currently being discussed in terms of its long-term effects.

Example Of People who were Arrested due to Black Money During Demonetization in India

J. Sekhar Reddy: During December 2016, the Tamil Nadu Officers arrested notable contractor and businessman J. Sekhar Reddy for allegedly possessing new money worth Rs. 34 crores that

had been acquired illegally. Reddy was a well-known associate of the government in Tamil Nadu and has been involved in many infrastructure projects

Rohit Tandon: In December 2016, the Enforcement Directorate detained Rohit Tandon, a lawyer practicing in Delhi, on suspicion of using unlawful methods to convert Rs. 60 crores in black money into white during the demonetization process. Tandon was suspected of participating in multiple infrastructure projects while conducting a money laundering network via his company.

Rohit Tandon: In December 2016, the ED detained Rohit Tandon, a lawyer practicing in Delhi, on suspicion of using fraudulent methods to convert Rs. 60 crores in black money into white during the demonetization process. He was charged with using his company as a front for a money-laundering scheme.

Shekhar Reddy: The CBI detained Shekhar Reddy, a businessman from Tamil Nadu, in December 2016 on suspicion of holding Rs. 30 crores in fresh cash that was reportedly acquired illegally. Reddy was recognized for his involvement in a number of well-known building projects and had strong links to the government in Tamil Nadu.

Possible better effects of Demonetization

There are some effects of demonetization which are predicted for future:

- **Economic framework:** The demonetization of currency compelled those with unexplained wealth to disclose it or face harsh penalties, which resulted in a large rise in the number of persons who had to submit tax reports.
- **Increase in online payments:** When individuals switched to electronic payments to avoid the cash constraint, demonetization also resulted in a large rise in the use of digital transactions. This contributed to the growth of the digital economy and the decline in the use of cash for transactions. (Singh, 2017)
- **Black money and corruption reduction:** These issues were the goals of the ruling. There is some evidence to support the idea that the change has reduced corruption and increased financial transaction transparency.
- **Greater use of banking services as a result of demonetization:** People were compelled to create bank accounts in order to exchange their old notes for new ones,

which resulted in an increase in the usage of banking services. This encouraged access to financial services and increased the number of individuals using the established banking system. (Beg & Joshi, 2017)

- **Effect on the real estate market:** The demonetization process had a big influence on the real estate market since it caused property values to drop and a decrease in speculative activity. Long term, this can result in a housing market with lower prices.

Demonetization may have positive outcomes on India's economy after 2017 in the form of greater digital transactions, decreased corruption, and higher usage of online banking.

Conclusion

In summation, demonetization was a critical policy choice made by the Indian government in November 2016 with the intention of reducing the flow of counterfeit money and black money into the economy. In many areas of the Indian economy, the decision had both beneficial and bad effects.

Overall, demonetization had a number of beneficial repercussions on the Indian economy, notably in boosting financial inclusion and openness, but there is still disagreement about whether it was successful in fulfilling its claimed goals of reducing corruption and black money. Specifically, in handling cash shortages and facilitating the shift to a cashless transaction, the government's implementation of the strategy received criticism for its inadequate planning and execution.

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