

“THE DEMONETIZATION DECISION CHANGING THE FACE OF INDIAN ECONOMY”

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Abstract- Indian economy faces various major economic events and one of the historic experiences was demonetization. Government of India decided to cancel a legal tender of rs.500 & rs.1000 to curb and eliminate black money with a tool of demonization. It is the opportunity of upward mobility by the democratic political system .demonization is a liquidity blow that means sudden break in terms of currency availability. The main emphasis of study is to evaluate the effects of demonetization on the various sectors of Indian economy due to high level of cash spending.

I. INTRODUCTION

India is clutched by various chains of corruption, terrisom, black money etc. and this lead to slow development of Indian economy. To break the grip of corrupt practices government of India decided that currency notes of rs. 500 and rs. 1000 will be no longer legal tender from 8th November, 2016. The key drivers of Indian financial system are cash and high value currency notes which cannot be understated. Black money is the root of various distorts practices in India. The black money is creating parallel economy, for which there is no estimate what is size of it.

This poses various economic challenges, and to respond with these challenges Indian government took the step of demonetization. Indian economy is faced a lot of changes in small hours. Face of Indian economy has changed from cash to cashless, and this is done by the weapon of demonetization. government of India with dagger of demonetization curb the black money , corruption, and fake money menace some media persons called is surgical strike because ultras come in our country in the guise of corruption . Every sector of the country is affected by this decision .people of the country appreciated this step taken by Prime Minister, Mrs. Narender Modi.

II. TECHNIQUES TO CONVERT BLACK MONEY INTO WHITE

The most appealing thing about demonetization is that people are formulating various exclusive techniques for converting their black money in to white one. Certain of these techniques are as follows –

- A. Crediting money in the accounts of their poor relatives and friends.
- B. Inviting people with some percentage of money for exchange.

- C. Demanding their employees to stand in the long queues in front of Banks and ATMs for getting money exchanged.
- D. Hiring labors at certain cost to stand in the long queues in front of Banks and ATMs for getting money exchanged
- E. Exchanging black money in to gold.
- F. Paying a few months salaries in advance.
- G. Making payment of back loans forcibly.
- H. By means of their links with bank employees and so on.

III. DEMONETIZATION IMPACT ON KEY SECTORS OF INDIA

A). REAL ESTATE

Conventionally, real estate involves a very high amount of black money and cash transaction.Home sales have slowed down considerably as consumers postponed home purchases. Land dealings are at a decline as it deal is usually paid for in cash.

B). BANKING SECTOR:

Demonetization automatically leads to more amounts being deposited in Savings and Current accounts of commercial banks. This in turn, enhances the liquidity position of the banks, which will be later utilized for lending purposes.

C). NON BANKING FINANCE COMPANIES:

This sector is also widely affected due to demonetization.

D). AGRI & RELATED SECTORS:

As this sector deals in high cash transactions and due to demonetization, farmers seem temporary shortage of cash in hand, which could lead to postponement in payment and ruined related companies in short term.

E). AUTO & AUTO ANCILLARIES:

Temporary cash shortage have reduced the sale of two wheeler to a large extend as maximum of two wheelers are purchased on cash basis.Used car Sales May Fall: Sales of vehicles in the second hand market for original equipment manufacturers will get impacted, which will cause a current effect on New Car sales, as buyers will not be able to dispose of their old vehicles easily.

F). CONSUMPTION SECTOR

As customers and companies shift to the cashless platforms, demand should come back making demonetization near term neutral. In the long term, demand may shift from the unorganized players to the organized players.

G). HIGH END RETAIL & WHITE GOODS

The demand of high-end retail and white goods such as TV, Refrigerator & washing machine has been slow down as maximum portion of market is operated by cash. A little influence will be there on food and grocery sector as these are essential in nature.

H). BUILDING MATERIALS (*Metals, Cement, etc*)

These sectors sale has been slowdown due to their high dependence on real estate. Slowdown would be more obvious for unorganized players wherein cash transactions are higher.

Over time as demand for real estate improves, we would see growth come back for these sectors as well.

I). HEALTH SECTOR

Private hospitals are not under any authorization to accept old currency. Hence, people are facing too much problem in dealing with them.

J). PHARMA

The retail sales of medicine of chronic disease went up during post demonetization as people stocked up medicine using their old currency available at few outlets. The sales of drugs are expected to remain subdued in the coming few months. However, the demand for drugs being inelastic, the demonetization impact is likely to be temporary.

K).TOURISM

Preferred foreign Tourist Destinations of Indian people like Thailand, Singapore, Malaysia, Maldives, and Dubai has noticed adverse impact in tourism revenues as all black money sponsored trips come to an end. Indian Local Tourism will also get affected as they lose large portion of the pay-in-cash-only customers.

L). OIL & GAS

Demonetization of high legal tender shall only have a marginal impact on Indian oil & gas sector.

M). ENTERTAINMENT/ RESTAURANTS

This is the area where undisclosed income is utilized the most. There are plenty of restaurants out there that accept Credit and Debit Cards. Since a majority of the transactions are in cash form in here, it will be exciting to see how people react to it. Will they continue to opt for entertainment at the same scale that they did earlier?

IV. POTENTIAL BENEFITS OF DEMONETIZATION:

The following are the advantages of demonetisation going to revolutionize the economy in the coming months:

- A.) It has improved the perspective points for the country which ranks 130 in the ease to do business in the world. Foreign investors will consider this to be a positive move to invest in India.
- B) It has encouraged cashless payments in the country. With government's schemes like rebate in service tax (for payments under Rs.2000), 8 to 10% off in cashless premium payment of life and general insurance, etc... India can move out of the cash-is-king mentality.
- C) Less number of stone pelters in Kashmir, indicating the fact that some fringe people are giving up on the peace in the valley, so no terror funding in India anymore.
- D) Complete bust of fake currency racket sourced from Pakistan.
- E) Hawala racket becomes dormant, leading to better returns on foreign remittances.
- F) Improved tax revenues and deposits, helping both banks and government to get better returns on its investments (like lending, infrastructure, etc...).

- G) Bringing unorganized sector into the banking system, encouraging savings for these workers.
- H) The biggest advantage to the Government to track unaccounted cash or cash on which no income tax has been paid.
- I) By this initiative people took step to disclose their money in bank accounts and due to this Government earns huge amount of tax.
- J) This move helps to control inflating price of real estate, gold, and other assets.

V. CONCLUSION

We cannot deny from the above statement that demonetization have long term benefits to the Indian economy. It helps to the people to become more patience and contributor to the development of the country to make country

from cash to cashless. This step is taken by the government 3 times to make country more accountable and transparent to the public of the country. This leads to control the purchasing power of people and hence, lowered the consumption of luxurious products. This makes the society more cautious and less materialistic. It will bridge the gap between haves and have-nots. Initially, people faced difficulties but passage of time they are to cope with situation and appreciate this effort of Government.

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