

## EFFECTS OF DEMONETIZATION ON THE INDIAN ECONOMY

### Abstract

The move which was taken by the Indian government to demonetize notes of high denomination was undertaken on 8<sup>th</sup> November 2016. This study aims to analyse the impact of this change on the general India demographic. This study also brings out important psychosocial trends and patterns in an important segment of society with policy implications and it attempts to analyze the reasons behind the observed social behavior. The finding was that majority of the people believed that the move was in favor of the nation and had public support but somewhere there also seemed to be an apparent lack of planning in implementing the scheme. This study brings out important psychosocial trends and patterns in an important segment of society with policy implications and it attempts to analyze the reasons behind the observed social behavior.

Key Words: Indian currency, Note Ban, Demonetization,

### 1 Introduction

On 8<sup>th</sup> November 2016, the Government of India announced the demonetization of all Rs. 500 and Rs. 1,000 banknotes of the Mahatma Gandhi Series. It also announced the issuance of new Rs. 500 and Rs. 2,000 banknotes in exchange for the demonetized banknotes<sup>[1]</sup>. Head of the state asserted that the activity would diminish the shadow economy, increment credit only exchanges and lessen the utilization of unlawful and fake money to support criminal behavior and psychological warfare. As per a 2018 report from the Reserve Bank of India, roughly 99.3% of the demonetized banknotes, or Rs. 15.30 lakh crore (15.3 trillion) of the Rs. 15.41 lakh crore that had been demonetized, were saved with the financial framework, driving examiners to express that the work had neglected to eliminate dark cash from the economy<sup>[2]</sup>. The BSE -

SENSEX and NIFTY 50 stock records fell north of 6% on the day after the announcement<sup>[3]</sup>. The move decreased the country's modern creation and its GDP development rate. It is assessed that 1.5 million jobs were lost<sup>[4]</sup>. The move likewise saw a huge expansion in computerized and credit only exchanges all through the country.

At first, the move got support from a few financiers along with from a few worldwide observers. The move was likewise condemned as half-baked and unjustifiable, and was met with fights, cases, and strikes against the public authority in a few spots across India. Discusses likewise occurred concerning the move in the two places of Parliament.

Our study dives deep into the effects of demonetization which exist to this day. It's been 5 years since the move was made. This study will aim to tackle some of the problems introduced by this change such as, how the decision changed the progress and state of the Indian economy in the present time, what social impact this change had, how the general population viewed this proposed change when it was introduced and how that attitude has changed towards it in recent times.

## **2 Literature review**

Deepa, K & Siegel, S. (2017)<sup>[5]</sup> did a study of around 200 families living in 28 ghettos or lower-pay areas in Mumbai toward the beginning of December of 2016 to report and look at the prompt and transient effect of the November 8, 2016, demonetization choice by the Indian government. The overview evokes changes in families' pay, use, and reserve funds following the strategy declaration as well as could be expected longer-run impacts and an emotional evaluation of the arrangement toward the start of December 2016. The researcher finds that the strategy prompted a drop in pay, with a typical drop in pay during the long stretch of November of around 10% of families' month to month pay. The impact shifts essentially across various gatherings, specifically between those getting a standard compensation and those not. The pay drop is related to a drop in utilization as well as changes in families' reserve funds in November. The authors are recorded a huge contrast between past investment funds conduct and anticipated future reserve funds conduct, with the normal utilization of ledgers expanding and the normal utilization of money as a stockpiling of significant worth diminishing

considerably. In conclusion, the study found that most of the respondents viewed the arrangement by and large as certain, including most of those that accomplished some deficiency of pay in November.

Kalyani, P. (2016)<sup>[6]</sup> found that demonetization is the collaboration where the public authority broadcasts the at this point running money notes to be prohibited after the declaration is made. This kind of declaration was made in the year 2016, by PM. There was an extreme absence of money on the lookout and everyday trade was brutally influenced. The last demonetization was finished in the year 1978 where money notes of 5000/- and 10,000/- were invalidated and in year 2016, but this time people have various decisions to make trades and make trades like with electronic banking, adaptable banking, web shopping, e-wallets, Visas, charge cards, UPI [Unified Payment Interface] etc. There are the two potential gains and disadvantages of demonetization. It resembles a recovery button in the Indian economy and flush all the dead set aside money into the economy, to the market through genuine channels. The work is for going ruined trades and various e-wallet associations like Paytm, etc. are having a respectable response and the public authority is too enabling something almost identical. In this paper the maker will focus on the effects and moving examples in exhibiting/purchasing to the elective decisions available in the market maintained by study to all the more promptly appreciate the market situation.

Vij, D.D. (2018)<sup>[7]</sup> found that demonetization continued onward on the eighth November 2016. Perhaps it was the very best decision later, opportunity that affected everybody in India: an official, finance supervisor, government employee, specialist, housewife, youth, etc. Demonetization done by Prime Minister of India last year was with a for the most part superb intend to diminish degradation and dark cash from the economy, get straightforwardness and more conspicuous formalization of the economy. This single most decision shook the economy for quite a while, and everybody exchanged words on its impact on Indian economy business and one of a kind region of the economy. By and by the economy has risen up out of that unforeseen jerk of cash crunch and endeavoring to be

offset, so it is an exceptionally extraordinary opportunity to inspect the effects of this demonetization on our economy. Anyway it will require something like 5-6 years to acquire the complete eventual outcomes of this demonetization; a few transient effects are extremely evident. This paper is an undertaking to sort out these transient impacts of demonetization on the Indian Economy both positive and negative. This study embraces an edifying, logical philosophy considering helper data to sort out these positive and unfavorable results of this demonetization on the Indian economy in the latest year.

Singh, A. (2017)<sup>[8]</sup> started off by explaining how the Indian government announced the demonetization of all 500 and 1,000 rupee notes from the Mahatma Gandhi Series at midnight on November 8, 2016. The government asserted that by taking this measure, the shadow economy would be reduced and funds used to finance terrorism and unlawful behavior would be less frequently used. This programme has a significant impact on enterprises, regular people, financial institutions, and India's broad industrial base. It has been clear that instead of being productive, demonetization has dealt India's economy a fatal blow, causing much more than just destabilization. Demonetization's supporters may have had good intentions, but the hardship it has brought on for millions of Indians is unjustified. The anguish that people could feel if 86 percent of their blood were withdrawn from their body is comparable to the amount of Rs. 500 and Rs. 1000 notes that make up the total amount of money in circulation in India, particularly in the vast rural areas. The underdeveloped banking system in the countryside completely caught the poor off guard. For the tech class to comprehend the impact on the ground, they have little access to critical social theory. There is a lack of empathy. In conclusion, a better option would have been to give businesses and consumers more authority over economic decision-making, simplify, rationalize, and lower taxes, decrease regulations, limit officials' discretion, close loopholes, and expand the tax net.

Veerakumar, K. (2017)<sup>[9]</sup> points out that the Indian economy was significantly and immediately impacted by the demonetization. This paper seeks to determine how demonetization had affected the general populace. 100 respondents were randomly

chosen for samples from the Coimbatore District. After this thorough interview with a wide demographic ranging in four factors—gender, age, annual income, and occupation—have been found to significantly correlate with the effects of demonetization. It also shows that respondents ranked demonetization as helping to remove black money, followed by corruption, terrorism, and other issues. As an overall picture, Indians were shocked by the government's decision to demonetize the largest denomination note. Demonetization is implemented in response to a number of issues, including tax evasion, the use of counterfeit money, and the financing of illicit activity. Some persons are depositing cash notes into bank accounts in excess of the permitted limits, which has revealed unreported income subject to increased taxes and other penalties. Alternative payment methods like e-wallets, online banking transactions, and the use of debit and credit cards have expanded, and this will lead to the development of a productive cashless infrastructure.

Bose, F. (2019) <sup>[10]</sup> Brings to light how the government's move to demonetize the highest value note stunned the people of India. Demonetization was used as a solution to a variety of problems, such as tax evasion, the usage of illegal bills, and the funding of illegal activity. Some people used to deposit more cash than is allowed into bank accounts, which has exposed unreported income subject to higher taxes and other penalties. An effective cashless infrastructure has emerged as a result of the growth of alternative payment methods like e-wallets, internet banking, and the use of debit and credit cards. Because it raised transaction costs, the demonetization exercise caused mayhem in the lives of the majority of people. Due to the top down planners' knowledge gaps, the planning process has unforeseen repercussions. This exercise was promoted by interest groups who sought to gain from it in both the United States and India and was marketed as a strategy to accelerate GDP development. The surge in interest in digital payments is the only apparent positive trend. The number of digital payments among English-speaking Indians, who are likely members of the middle and higher echelons in Indian society, has undoubtedly increased.

Syngle, T. (2017)<sup>[11]</sup> did a research that was conducted on 60 people, 30 of whom were female house owners and 30 of whom were domestic helpers in Sector 23 in Chandigarh, India. Demonetization's psychosocial impact was analyzed qualitatively. All of the women appeared to be well informed about the demonetization drive. Women domestic employees appeared to have higher personal savings that were solely for family requirements which they retained in cash, despite having a bank account in certain cases, whereas women house owners' personal savings were mostly for personal reasons held in cash and in a bank account. Following demonetization, barely half of lady house owners and 80% of domestic employees continued to create personal savings. As a result, demonetization discouraged more female homeowners from generating personal savings as opposed to domestic help. Compared to the majority of female domestic employees, barely half of female homeowners have recovered control of demonetized personal funds. This might be a significant demotivator for women homeowners to continue with the habit of personal savings because this group of women saved mostly for personal purposes. More domestic employees than lady homeowners thought demonetization would aid in the abolition of corruption. According to this study, domestic employees proved to be more self-sufficient in managing savings after demonetization than female homeowners.

Arun, K., Srinagesh, A., & Ramesh, M. (2017)<sup>[12]</sup> analyzes people's sentiments about the Indian government's demonetization decision using Twitter data sets. Tweets are samples of society's opinions, and it can get the sample positive and negative sentiments about the Indian government's demonetization decision. For this Twitter sentiment analysis, data cleansing, bigrams, polarity, and sentiment scores, as well as graphical approaches, are employed. Overall sentiment ratings show that 31% are positive, 9% are negative, and 60% are neutral, indicating that the public mood or view is completely positive from the retweets. It also led to an improvement in India's income streams, such as income tax payments and digital payments, as the GDP increased to 7.3 percent between 2016 and 2017. Majority of the tweets are in favor of demonetization.

Das, T.K. (2017)<sup>[13]</sup> attempts to explain the mixed response of people on the decision of demonetization. A dual concern model is used to explain this behavioral pattern of different groups of people. The model shows that the resolution to conflict due to demonetization was from fighting and forcing to compromise through demonetization. The model is based on balancing two dimensions that are concern for self and concern for others. This two-dimensional model takes in five different conflict resolutions: competition, avoidance, compromise, accommodation and collaboration. People who didn't own black money their concern for self-regarding was low, their conflict style was accommodation. People who possessed unaccounted cash their concern for self-regarding black money was high, their conflict style was competition. Common people's concern changed gradually due to the cash crisis, inability and inaccessibility to digital payments and loss of jobs due to slow down of some economic activities. Government is continuously advocating and incentivizing to change from a cash-based economy to digital payments.

### **3 Methodology**

The goal of this research is to discover the impacts of demonetization that still exist today, as well as people's reaction to this choice. A questionnaire was created, with questions such, 'Do you think the introduction of the 2000 Rupees note is a positive thing in the realm of digital payments?' To further understand people's perspectives, a survey was conducted, collecting where responses from 236 persons with a bachelor's, master's, or doctorate degree as their greatest level of education. Following an exhaustive assessment of the literature, data was collected according to a well-structured plan. Demonetization's psychosocial impact was qualitatively assessed by integrating information directly connected to demonetization, ownership of demonetized cash and its handling, and the social impact that the action had caused. We were able to obtain the outcomes for this study based on this data. The data was processed using statistical tools such as Simple Percentage (%) and bar graphs after the acquired information was analyzed and summarized into pie charts and graphs.

### **4 Data analysis**

**Table No.1: Percentage Distribution of the respondents for know anyone who was adversely affected by demonetization**

S. No.	Particulars	Percentage
1	Yes	33.3%
2	No	66.7%
Total		100%

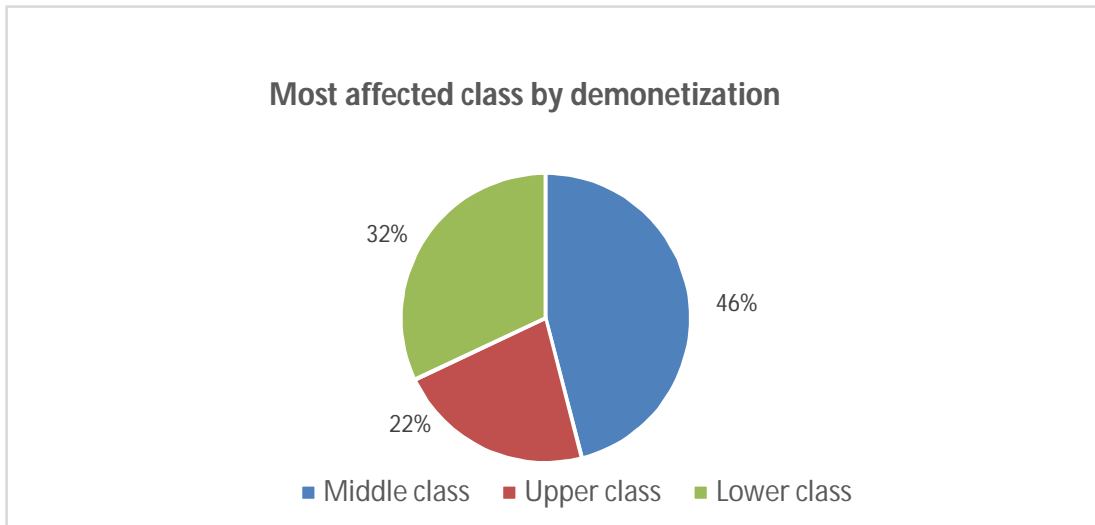
From the above table 1, it was found that 67 percentage of respondents did not know the people who adversely affected due to demonetization, only 33 percentage of respondents revealed that, it was affected.

**Table No.2: Percentage Distribution of the respondents believes the move of demonetization to the interest of the nation**

S. No	Interest of the nation	Percentage
1	Yes	77.8%
2	No	22.2%
Total		100%

From the above table 2, it revealed that this demonetization was in the interest of the nation 77 percentage and 22 percentage of the respondents opined that it was not the interest of the nation.

**Figure 1: Percentage distribution of the respondents on the most affected class by the demonetization**



From the above figure 1, it was revealed that both Upper class 32 percentage and Lower class 22 percentage affected due to Note ban. The majority of the 46 percentage of the respondents revealed that the Middle class people affected due to Note ban.

Table No. 3: Percentage Distribution of the respondents on opinion of successful in its initial goal of demonetization

S. No	Opinion of successful	Percentage
1	Yes	58.3%
2	No	41.7%
Total		100%

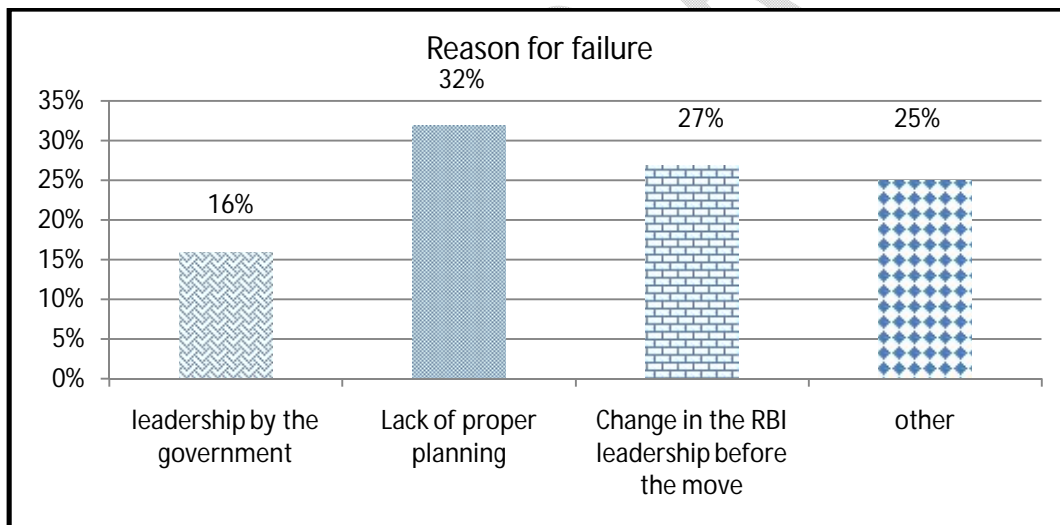
The Questions related to the success of this scheme in table No 3, it was found that 41 percentage of the respondents revealed that, it was not successful and remaining percentage 58 percentage revealed that, it was successful scheme.

Table No. 4: Percentage Distribution of the respondents on introduce 2000 rupees currency note is good things in the world of digital payment

S. No	Introduction of the Rs.2000note and digital payment	Percentage
1	Yes	41.7%
2	No	58.3%
Total		100%

A majority of the people believe that the introduction of the 2000 Rupees note was a mistake and should not have been brought forward in a world of digital payments.

Figure 2: Percentage Distribution of the respondents on the reason for the failure of demonetization



In figure No 2, it was found that due to lack of proper planning 32 percentage was the reason for the failure followed by change in the RBI leadership 27 percentage and others 25 percentage. Nearly 16 percentage of the respondents revealed that poor leadership by the government for the failure of this scheme.

## 5 Findings

Two-Thirdsofthestudiedindividualsdidn'tknowanybodywhowereunfavorably

impacted by the move. Larger part of the reviewed individuals accept that the move was without a doubt in light of a legitimate concern for the country and shows that the larger part believed the move should happen. Around 60% individuals accept that the public authority didn't execute the plan well as they ought to have and there was some ailing in the rollout of the plan. Larger part of the reactions showed that lower and working class was confronted by the move and privileged was generally unaffected. Individual's discernment is to such an extent that it was an effective move and finished its underlying objective it at first set off on a mission to do. Two-Thirds accepted the plan was effective. A greater part of individuals accept that the presentation of the 2000 Rupees note was a slip-up and shouldn't have been presented in that frame of mind of computerized installments. The most reactions on why the plan might have fizzled was accepted to be the absence of legitimate preparation at 82% where unfortunate authority and change in RBI administration came practically same at 32% and 35% separately. Where 23% likewise accepted that there might be different explanations behind the disappointment.

## 6 Summary

The Indian government announced the demonetization of all 500 and 1,000 rupee banknotes from the Mahatma Gandhi Series on November 8, 2016. Additionally, it announced the release of ₹500 and 2,000 rupee banknotes in place of the currencies that were demonetized. According to Prime Minister of India, the move would diminish the shadow economy, boost cashless transactions, and decrease the use of illicit and counterfeit money to finance crime and terrorism. Approximately 99.3% of the demonetized banknotes, or 15.3 trillion rupees (15.30 lakh crore), were deposited in the banking system, according to a Reserve Bank of India report from 2018<sup>[14]</sup>, which prompted analysts to conclude that the endeavor to eradicate dirty money from the economy had failed. On the day following the announcement, the BSE SENSEX and NIFTY 50 stock indices both decreased by more than 6%. The action decreased the nation's industrial output and GDP growth rate. 1.5 million jobs are thought to have been lost. A

Additionally, the shift resulted in

notable

rise in digital and cashless transactions across the nation.

The general consensus agrees that the move was done with good intent and could have been a driving force in reducing the flow of black money, however this same demographic believes that the overall plan lacked proper structure and organization. The result was days of uncertainty and panic that followed November 8, 2016 and the middle class was the most affected section of the society.

## 7 Conclusion

This study identifies significant psychological trends and patterns in a critical part of society, with policy consequences. Despite the fact that Demonetization has created several challenges for Indian residents like, they have experienced long lines at banks and ATMs while depositing and withdrawing money. People in India are incredibly adaptable, as seen by the huge support for the move and swift transition to e-wallets. According to the study, the majority also agreed that the decision was in the best interests of the country and had successfully reduced the flow of black money and corruption. Furthermore, it aims to evaluate the reasons for the observed social behavior. A more extensive study with a larger sample dispersed across a greater geographic area as well as diverse social background would shed more light on the crucial psychological behavior and thoughts of individuals following demonetization.

## 8 References

1. Wikimedia Foundation. (2022, July 23). 2016 Indian bank note demonetization- Wikipedia. Retrieved, July 29, 2022.
2. Kazmin, A. (2017, August 31). India demonetization fails to purge black money. Subscribe to read - *Financial Times*. Retrieved, July 29, 2022.
3. The Hindu. (2016, December 2). Sensex crashes - 1,689 points on black money crack

down, U.S. election. Return to front page. Retrieved, July 29, 2022.

4. Guardian News and Media. (2018, August 30). Demonetization drive that cost India 1.5m jobs fails to uncover 'black money'. *The Guardian*. Retrieved, July 29, 2022.

5. Deepa, K & Siegel, S. (2017). Survey of the Effects of demonetization on 28 slum neighborhoods in Mumbai, *Economic & Political Weekly*, Vol 52(3). Available at SSRN2896026.

6. Kalyani, P. (2016). An empirical study of the effects of demonetization in india in the year 2016 and analyzing shifting trends in marketing/purchasing to the alternative options. *Journal of Management Engineering and Information Technology*, 3(6), 20-34.

7. Vij, D. D. (2018). Demonetization: effects on Indian economy. *International Research Journal of Business and Management-IRJBM*, 11(1), 11.

8. Singh, A. (2017). Impact of demonetization on Indian economy. *International Journal of Engineering and Management Research(IJEMR)*, 7(3), 785-788.

9. Veerakumar, K. (2017). A study on people impact on demonetization. *International Journal of Interdisciplinary Research in Arts and Humanities*, 2(1), 9-12.

10. Bose, F. (2019). An economic and public policy view of demonetization in India. *Society*, 56, 38-46.

11. Syngle, T. (2017). Impact of demonetization on women. *Management and Economics Research Journal*, 3, 78-90.

12. Arun, K., Srinagesh, A., & Ramesh, M. (2017). Twitter sentiment analysis on demonetization tweets in India using R language. *International Journal of Computer Engineering In Research Trends*, 4(6), 252-258.

13. Das, Tuhin K., Demonetization and Dual Concern Model (September 10, 2017). Available at SSRN: <https://ssrn.com/abstract=3034896> or <http://dx.doi.org/10.2139/ssrn.3034896>

14. Dutta, P. (2022). Demonetisation: What India gained, and lost. India Today. Retrieved, 18 August, 2022.  
<https://www.indiatoday.in/india/story/demonetisation-what-india-gained-and-lost-1327502-2018-08-30>

UNDER PEER REVIEW