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## COMPARATIVE ANALYSIS OF IMPACT ON INDIAN STOCK MARKET AND ASIAN STOCK MARKET IN PRESENT SCENARIO

<sup>1,\*</sup>Geetha, R. and <sup>2</sup>Dr. Swamy, T.N.V.R.L.

<sup>1</sup>Assistant Professor, School of Social Sciences and Languages, Commerce & VIT Business School, VIT University, Vellore

<sup>2</sup>Associate Professor, School of Social Sciences and Languages, Commerce & VIT Business School, VIT University, Vellore

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### ABSTRACT

The Government of India announced the demonetization of all Rs.500 and Rs.1000 banknotes of the Mahatma Gandhi Series on 8 November 2016. 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 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.

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## INTRODUCTION

The Indian government had demonetized 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 demonetization would penalize Indian businesses that were concealing the fortunes amassed supplying the Allies in World War II. In 1978, the Janata Party coalition government demonetized banknotes of 1000, 5000 and 10,000 rupees, again in the hopes of curbing counterfeit money and black money. In 2012, the Central Board of Direct Taxes had recommended against demonetization, saying in a report that "demonetization may not be a solution for tackling black money or economy, which is largely held in the form of benami properties and bullion. According to data from income tax probes, black money holders kept only 6% or less of their wealth as cash, suggesting that targeting this cash would not be a successful strategy.

On 28 October 2016 the total banknotes in circulation in India was 17.77 trillion (US\$260 billion). In terms of value, the annual report of Reserve Bank of India (RBI) of 31 March 2016 stated that total bank notes in circulation valued to 16.42 trillion (US\$240 billion) of which nearly 86% (around 14.18 trillion (US\$210 billion)) were 500 and 1,000 banknotes. In terms of volume, the report stated that 24% (around 22.03 billion) of the total 90266 million (9026.6 crore) banknotes were in circulation.

### Exchange of old notes

The Reserve Bank of India stipulated a window of fifty days until 30 December 2016 to deposit the demonetized banknotes as credit in bank accounts. The banknotes could also be exchanged over the counter of bank branches up to a limit that varied over the days:

- Initially, the limit was fixed at 2,000 per person from 8 to 13 November.
- This limit was increased to 4,500 per person from 14 to 17 November.

#### \*Corresponding author: Geetha, R.,

Assistant Professor, School of Social Sciences and Languages, Commerce & VIT Business School, VIT University, Vellore.

- The limit was reduced to 2,000 per person from 18 November.

All exchange of banknotes was abruptly stopped from 25 November 2016. International airports were also instructed to facilitate an exchange of notes amounting to a total value of 5,000 for foreign tourists and out-bound passengers.

### OBJECTIVE OF THE STUDY

The primary objective behind demonetization of currency was to remove the black money from the country.

The secondary objective of this study is to identify

- Stopping of corruption
- Curbing fake notes

### STATEMENT OF THE PROBLEM

As expected, the poorest people and the economically weaker sections of society yet again emerged as the main sufferers. It will take at least 6 to 9 months to replace and re-print almost 15 lakh crore rupees worth of currency notes. Traders, taxi operators and the tourism sector have been hit hard. Horticulturists from Himachal were suffering as their produce was not been sold in fruit and vegetable markets. Textile industries, the people having marriages in their families have been allowed cash withdrawal of Rs 2.5 lakh. Even for that amount a lot of riders have been added. Many are not getting 2.5 lakhs due to shortage of currency. The people in rural areas and the farmers are also facing a great deal of hardship. Many of them do not have bank accounts or own a debit/credit card. The concept of internet banking is far removed for them. These people may be induced to rise in revolt. Already the case of looting of a fair price shop by the public in Madhya Pradesh has been reported.

### Significance of the study

The study is mainly based on the demonetization of 500 and 100 rupees which recently took place in India. The following are the significance of the study

- It was estimated that fake Indian currency notes in circulation have a face value of Rs. 400 crore. This is an incidence of fake currency of 0.022%.
- The monetary shock can be, and will be, quickly overcome by the use of *monetary policy instruments to restore liquidity*.
- This decision will expedite the process of making India a "cashless economy", with benefits that will make short-term costs worthwhile.
- In this study analyse that Demonetisation of 500 and 1000 rupees in the long run would help the economy to remove corruption and black money for the progress of the economy.

### Limitation of the study

The research has the following limitations:

- Business are encountering with the loss due to limited cash circulation

- Unfavorable impact on GDP growth
- High scarcity of money changes.

Research methodology: The method which was used in this study was secondary data.

### REVIEW OF LITERATURE

Geetharani researched on demonetisation as a tool to remove black money. Demonetization is a tool of Government to eliminate the currency. It is used in very adverse situations. Demonetization is a process by which a series of currency will not be legal tender. The series of currency will not acceptable as valid currency. The same thing happens with the Rs. 500 and Rs. 1000 note demonetization. There can be many causes of Demonetization in any economy some of them are: Introduction of New Currency, Black Marketing, Currency Storage, Corruption and others. There will be excess fake currency in the economy is main reason of demonetization. On 8th November 2016, Government of India had announced that from today onward rupees 500 and 1000 rupee note will not be a legal tender. This means that 500 and 1000 rupee note will be accepted by anyone except the organization declared by government. They can change the currency from the banks and post offices till 30th December 2016. This is not the first time when Indian currency is demonetized in India.

Vijay Kumar describes the factors affecting demonetisation in India. 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. 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 that living in harsh climatic conditions where it is difficult to provide these financial services 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

SAINI (2014) explained a thought process has been started for cashless India on 15th Aug. 2014 when Prime Minister announced opening of Jan-dhan accounts on affordable cost for poor and unbanked areas under financial inclusion, first to control the black money in the economy and anti money laundering which has been used extensively by terrorists and second to increase E-transactions in the country. Though, result of the above will come in due course of time but it is sure that all developed countries are moving towards cash-less transactions. No doubt control of currency needs huge expenses like printing, preserving, security etc. 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. This is starting journey, the moment when it will gear up with the positive attitude in the minds of public, the above cashless transactions can further increased with huge numbers. No doubt there may be some problems at initial stage to all but with the cooperation from all sides, the same will be

minimized. Sandeep Kaur describe about the advantages of demonetization in India. The sudden move to demonetize Rs 500 and Rs1,000 currency notes is not new. Rs 1,000 and higher denomination notes were first demonetized in January 1946 and again in 1978. The highest denomination note ever printed by the Reserve Bank of India was the Rs10,000 note in 1938 and again in 1954. But these notes were demonetized in January 1946 and again in January 1978, according to RBI data. Rs 1,000 and Rs 10,000 bank notes were in circulation prior to January 1946. Higher denomination banknotes of Rs 1,000, Rs 5,000 and Rs 10,000 were reintroduced in 1954 and all of them were demonetized in January 1978. The Rs 1,000 note made a comeback in November 2000. Rs 500 note came into circulation in October 1987. The move was then justified as attempt to contain the volume of banknotes in circulation due to inflation. However, this is the first time that Rs2,000 currency note is being introduced. While announcing currently circulated Rs 500 and Rs1,000 notes as invalid from midnight 8 Nov, Prime Minister Narendra Modi said new Rs 500 note and a Rs. 2,000 denomination bank note will be introduced from November 10.

Significant reduction in black money and hoarding of cash is expected. The secondary real estate would be severely impacted by this step because of the currency involvement in such transactions. The primary real estate market will be slightly less affected as it is far more structured and less exposed to cash dealings. Definitely With black money disappearing from the scene, this would be a major step towards an organized and transparent real estate market. Once the initial knee-jerk reaction settles down, significant volume jump should happen. It will also change the way how real estate is transacted in India. Online aggregators like Square Yards have been working hard towards creating an ecosystem of transparency and accountability dealings in real estate. This move will aid their efforts. Also, a lot of secondary market brokers will consolidate. We will also see the share of volumes of non-cash primary transactions rise. The demand for online aggregators and organized consultants will go up. As a proxy play to developers and asset plays, aggregators should attract more interest now.

Aushutosh Varshney (2017) Economic theory and comparative historical experience point to three reasons that might provide legitimate justification for demonetisation. The first is hyperinflation. In the second half of the 20th century, some Latin American and African countries experienced exorbitantly high inflation rates. If the inflation rate is, let us say, 15,000 per cent, the value of the currency changes virtually every day, if not every hour; people don't wish to hold on to domestic notes; and the monetary function of the currency begins to collapse. Demonetisation, under such circumstances, is a way out of the economic crisis. Second, if a substantial part of the currency is counterfeit, it makes sense to demonetise. It restores integrity to the monetary system. Third, rarely used in routine transactions of citizenry, high-value notes primarily help the operations of smugglers and criminals. As an attack on organised crime, such high-denomination notes can be decommissioned without hurting law-abiding citizens. None of these conditions obtained in India on November 8. India's inflation rate is low; the estimated size of counterfeit currency is small; and the crime-fighting purpose of large-value notes was undermined by the issuance of new Rs 2,000 notes. Moreover, if only an estimated 6-8 per cent of the black economy was in cash, it is unclear how an overnight

decommissioning of high-value notes meaningfully attacked the problem of corruption. Vishal Gupta (2016) When PM Modi announced that Rs with the denomination of 500/- and 1000/- would cease to be the legal tender from 9th of Nov, the whole country was stunned. This decision caused sensation in the whole country. Social Media was flooded with messages and information. The main objective of this move was to curb the black money, corruption and fake money menace. All the people but those who were indulged in malpractices welcomed the move. The whole opposition shook hand against this move under one pretence or the other. They called this decision a draconian law and wanted the govt to roll back it. Tirades were made to target the decision. Govt also carried out counter attacks. The main objective of this move was to curb the black money, corruption and fake money menace. All the people but those who were indulged in malpractices welcomed the move. The whole opposition shook hand against this move under one pretence or the other. They called this decision a draconian law and wanted the government to roll back it. Tirades were made to target the decision. Government also carried out counter attacks.

Dhiraj Nayyar (2016) the critics of demonetization are absolutely right about the adverse short term impact of the policy. It has caused a major inconvenience to a large majority, particular to those who have least financial resources. Of course, it will shave off some amount of GDP growth for anywhere between a quarter and a three quarter because of the economic disruption it has caused in different sectors of the economy. According to some, including the venerable Dr. Manmohan Singh, this alone is sufficient to damn demonetization. After all the short run is all that matter because in the long run as Keynes famously said we all are dead. While that proposition, may be true for individual it certainly isn't true for nations. India has a long term future even if u or I don't. The real impact of demonetization must be weighed in medium /long term. JITENDRA SINGH (2017) Demonetization represents much more than destabilization; critics argue that it has struck a body blow on economic activity in India. The decision – which was entirely unsuspected – was announced on 8 November 2016. While the pros and cons of the measure still continue to be debated, the consensus of opinion appears to be that while the proponents of demonetization may have had good intentions, the suffering it has caused to millions of Indians is unwarranted. Since Rs500 and Rs1000 notes make up some 86% of the total currency in circulation in India, especially in the vast rural areas, one economist compared the pain to what individuals might experience if 86% of their blood was removed from their bodies. To be sure, demonetization has its supporters. While industrialists and corporate chiefs (Ratan Tata, Mukesh Ambani, K.V. Kamath and Deepak Parekh, to mention a few) favor the move, economists (including Nobel laureates Amaryta Sen and Paul Krugman, among others) are critical. “The clan of economists has spoiled the party [with] their estimates of how output will be affected as spending has stopped, manufacturing hit and several workers laid off. The net result can be a fall of between 0.5% and 2% in GDP,” says online news channel Firstpost. The debate still goes on. KARTIK HOSANAGAR stated that part of the problem with demonetization was that it came as a bolt from the blue; the government claimed giving advance notice would have defeated its purpose. But not everyone agrees with that view. All demonetizations through history have been done with some advance warning.

This reduces the damage to innocent people. The government could monitor suspicious transactions after the announcement, just as it is doing now. The government, meanwhile, seems to have moved the goalposts: The claimed objective of the exercise has apparently changed from rooting out black money to promoting cashless transactions. Several measures have been introduced, among them a 0.75% discount on digital payments made for buying petrol and diesel and a 0.5% cut in the price of railway season tickets bought using digital technology. In another twist, the government appears to be no longer pushing demonetization as a “cashless” plan. JAYATI GHOSH investigated about how demonetization will affect the business growth in 2017. Three events dominated India’s economic landscape last year, but whether they can be described as progress is debatable. One definitely isn’t: the unseemly brawl that broke out over control of the Tata group with Ratan Tata returning as interim chairman after ousting incumbent Cyrus Mistry. A lot of dirty linen is being washed in public, putting partly in the shade the political charges being traded elsewhere. The second is the goods and services tax (GST), whose objective is to replace all taxes levied by the federal government and the states with one central tax. The GST is scheduled to come into effect by April or — at the latest — by September. Although both houses of Parliament have approved the bill and the President has signed off on it, a GST Council is now squabbling over the details, which could delay implementation. The timing is not right for implementation, says West Bengal finance minister Amit Mitra, who is also chairman of the empowered committee of state finance ministers. He lays the blame squarely on the center’s move to demonetize Rs500 (\$7.4) and Rs1,000 notes. We all supported the GST under the premise that this would be the only destabilization factor, Mitra told a TV channel. We did not know that there would be a much bigger destabilization in the form of demonetization that would be let loose on the country.

### **Impact on the rights of individual citizens**

One problem with a cost-benefit approach is that, unless it is done very carefully, it can justify inflicting a great deal of pain upon innocent people just so that society in the aggregate can benefit. Even when done carefully, it is still based on the utilitarian assumption that as long as a decision is beneficial in the aggregate, it can be justified. This aggregate net benefit is a necessary condition for a decision, but is it a sufficient condition? In a totalitarian system, where individual identity is subsumed under the collective good, aggregate benefit is both a necessary and sufficient condition. However, in a democratic republic, individual rights and duties provide the foundations on which democratic self-government is established and sustained. Civil and economic rights must be preserved, even in face of aggregate societal benefits. For example, a poor person may not contribute much to the GDP, but is still a citizen who has a piece of the constituent power that established the state in the first place. Any consideration of costs and benefits must be over and above an understanding of the rights of individuals that cannot be taken away. The decision to discontinue the Rs. 500 and Rs. 1000 notes is harmful for the economic liberties of citizens. For weeks, their ability to conduct their economic lives has been severely disrupted. Money is of no use if one cannot use it when one needs to. By restricting withdrawals from banks, which is a decision of questionable legality, and by limiting exchange of notes, people have been deprived of using their hard-earned

money when they need it. Because of the restrictions, some may be forced to take losses even on their hard-earned money. As my colleague Anirudh Burman has argued, these are forms of expropriation. The right to property is a right under Article 300A of the constitution of India, though it is not a fundamental right. However, intruding upon the property rights of citizens is bad policy, regardless of whether the constitution prohibits it or not. The decision has led to considerable problems for people who needed cash for an emergency, for a pre-planned social event, or for other legitimate purposes. This is an insulting way to treat citizens, and potentially infringes upon their other rights. Their ability to take care of their health, to move across the country, to practice their profession, etc, are affected by this abrupt decision. Many of these impacts are not fully captured in a simple cost-benefit analysis.

### **Impact on rule of law and uncertainty in society**

Order is our most fundamental need, and uncertainty is the enemy of order. The decision to disrupt the medium of exchange for so many people, and then implementing it in such a haphazard way, has generated enormous uncertainty. This uncertainty that has been unleashed could have unpredictable consequences, which ex-ante cost-benefit analysis cannot consider. For example, conspiracy theories and fraud are thriving due to this large scale disruption. Policy decisions should always try to minimize uncertainty, especially in decisions implemented at large scale. This decision fails this test. Governments are expected to put in place system to reduce uncertainty, and to solve the problems that create uncertainty. For example, systemic crisis in the economy creates uncertainty. When Lehman Brothers failed and the global financial crisis began, the chief task of the central government and RBI was to reduce uncertainty and maintain stability in the financial system. One of the main ways of reducing uncertainty is to uphold the rule of law. Rule of law is a complex notion, but at its heart lie certain core principles. First, laws should be consistent with natural rights and principles of natural justice. Second, laws should be clear, predictable and widely known beforehand. Third, laws should be applied uniformly across similar situations. Fourth, due process should be followed, which means every application of law should provide the private party with information about the application of the law, the reasoning behind the application, and a mechanism for appeal.

This decision has hurt the rule of law and increased uncertainty. When government repeatedly promised to allow exchange of notes till December-end, but abruptly banned such exchange, the principle of predictability was violated. This did not just surprise those with black money, but also put others in difficulty. The myriad rules and frequent changes are placing enormous cognitive load and hurting clarity of law. Harming property rights on such a large scale without proper investigation, prosecution and conviction is not consistent with the due process requirement. Inflicting harm on the innocent goes against natural justice. The expansion of discretionary powers of the tax authorities is also likely to weaken the rule of law. The pronouncements from government seem to suggest that it is going to be open season for the taxman. They will have the authority to send notices and start investigations against anyone who may have deposited cash. This has subverted a basic principle of law enforcement: everybody is innocent until proven guilty.

One way in which this principle is put in practice is by requiring a reasonable burden of evidence before investigation, before prosecution and, of course, before convicting someone. The suspicion underlying the note ban decision turned everybody depositing cash, which is usually a legitimate activity, into a potential suspect. . We look back with disapproval at the license permit quota raj. Yet, sometimes we forget that the regime of innumerable, impossibly complex rules did not come up in one day. The rule books kept gathering fat over decades, before they were committed to a bonfire in the early 1990s. This regular addition to rules was necessitated by a mindset of suspicion. There was an endless cat and mouse game between the state and the citizen, because the state wanted to control everything. If the present trend continues, a similar game could be afoot yet again. This time it would be about cleansing society of all forms of corruption.

### Aggregate vs. local impact

We differ on the scale of our analysis. While I am thinking about the aggregate trade-off between benefits and costs, my friend is looking at impact on his immediate community. Since he is a middle class professional, the costs to him and his community may be small, while, in his view, the impact on Person X would be quite large. Sometimes, it is better to think local, and at other times, it is better to have a broader perspective. Corruption is an issue where thinking local might often be more reasonable, given the way it affects us, but the larger question of disrupting black money storage might be better addressed with a broader perspective. We have different views about what has been done to solve the black money problem, and therefore our expectations from government also differ. I am used to the long time-scale over which policy projects play out. As an example, the public debt management agency has been in the making from the late 1990s, and we are still a few years away from seeing tangible results.

### Expected impact on fake currency

A study by the National Investigation Agency and the Indian Statistical Institute, in 2016, estimated that fake Indian currency notes in circulation have a face value of Rs. 400 crore. This is an incidence of fake currency of 0.022%. The scale of counterfeiting of the Indian rupee is not out of line with what is seen in other countries, and the procedures adopted worldwide to address this include investigative actions against counterfeiters, phased replacement of old series of notes with new notes that have better security features, etc. Demonetisation is generally not seen as a tool for dealing with counterfeiting. We must also not forget that the counterfeiters will now get to work on the new 500/2000 rupee notes, while India will likely never do a demonetisation again.

### Expected impact on unaccounted wealth a.k.a. “black money

The analysis presented in the finance ministry’s *White Paper on Black Money*, 2012, shows (on page 47) that, on an average, the amount of cash seized during raids by income tax authorities is 4.88% of total undisclosed income admitted in those cases. This data is from more than 23,000 warrants executed. Even if this decision inflicted a 100% loss upon holders of unaccounted cash, this would imply a loss of only 4.88% of their total unaccounted wealth, which is not much of a shock for those with such wealth.

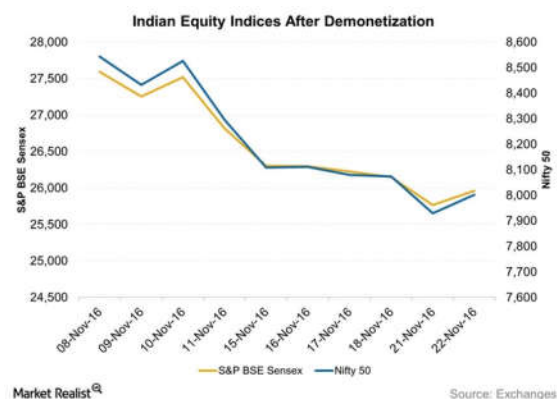
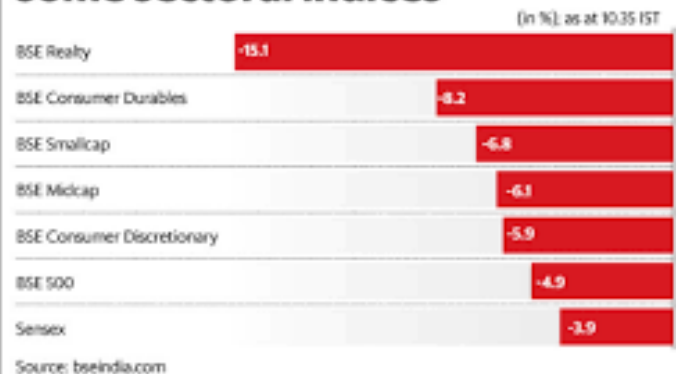
If, as is more likely, the demonetization has imposed a 40% loss upon holders of unaccounted wealth (who suffer a 40% discount when laundering their money), this implies a loss of just about 2% of unaccounted wealth.

### Comparative analysis of impact on Indian stock market and Asian

#### Stock market

At the time of writing, the Indian markets have fallen a bit more than other emerging markets in Asia. Senses are down 3.8%, which is more than more or less all other Asian emerging markets. The extra fall in the Indian markets compared to others could be due to many factors, including high valuations, but it’s very likely that the demonetization effect is mainly responsible for the fall that is clearly seen if we dig a little deeper. The Senses is made up of very large companies which may not be impacted as much by the demonetization process. BSE’s mid-cap and small-cap indices have fallen by over 6% each

### The real impact of the demonetisation process is seen in mid-and small sized stocks and some sectoral indices



### Pro’s of Demonetization

- **Will reduce the amount of Black money** – After this move, people who have hoard black money with them, which is more than 20 % of the total economy. they will have to either abandon their money or move it to white by bringing it to system.
- **Will Increase the inflow of the money in the economy** – As people has to put their money into bank,

which will result in huge increase of inflow of cash in to the banking system thus into the economy.

- **Will Hit the business of Fake currency** – Almost 80,000 crore rs of counterfeited money is been pumped by ISI and Pakistan to Indian economy. Which will be hit by these moves badly.
- **Terror Funding will get reduce** – Most of the illegal work and terror funding is
- been done through fake currency and earning from the fake currency business. As fake currency business will hit badly by this, so it will lead to stop terror funding for time being.
- **Naxal funding will go in vain** – Naxal and other illegal mafia has stanchd huge money with them, they have hoarded the big amount with them, which they have earned by their illegal activity. That money is useless now, neither they can put it in the banks nor they can use that money.
- **Will hit political funding** – As almost all political parties are them self are biggest hoarders of the black money. Their economy will hit badly by this move, we may see a better election in up coming assembly in UP and Punjab.
- **Will Increase the GDP** – Indian Govt. is expecting to get 10 trillion to be deposited in the banks after this move, which will very positively impact the Indian economy and which can improve the GDP by at least 1.5 %.
- **Increase in Public expenditure** – Govt. will collect more tax, which will give leverage to the govt. to spend more on Infrastructure, Health and education.
- **Increase in Job opportunity** – As Govt. will increase the public funding, the job opportunity will increase in the country, People will get job in health sector, education sector and Infrastructural sector and banking sector majorly.
- **Poor People will get benefited** – As govt. will work on the upliftment of poor, they will get huge benefit from the govt.

Con's of Demonetization

- **Problem in exchanging notes** – Currently 80 % of the total money in the economy is 500 and 1000 notes. So govt. and people is to exchange 80 % of the money, which it self a huge task & requires great detail of planning. It will be a tough task for govt. as well as for people.
- **Public Inconvenience** – It might be very inconvenient for public, many people have medical emergency and health issues, there is weeding season is around the corner. So it is very inconvenient situation for common people.
- **Lack of Banking structure** – Current banking structure, specially in rural India is not that sound, which can support this huge economic transition, at least 50 day's are very less for it.
- **May not stop the corruption and hoarding** – If certain step are not followed properly like 1. Reducing a discretionary power of tax officer, Making tax policy easier, increasing the exemption limit and reduction of tax % from Rich. I am afraid people will again start hoarding money and evading tax. So this whole marathon exercise will go in vain.
- **Will hit economy for two quarters at least** – As 90 % of the Indian economy is on cash, this crunch of the

cash situation will hit economy for two quarters at least if not more. 50 % of the revenue comes from service sector, which will be worst hit by this cash crunch.

- **Will hit agricultural sector** – This is the high activity period for agricultural is concern, farmers this time does not have a cash to buy seeds, fertility items. Which may hit the production of many important items. Which will further impact the economy.
- **“May” see a return of Inflation** – Ideally inflation should go down after demonetization, But/if the farmer production gets hit by this. If availability of cash does not get normalize in 2 weeks

## CONSEQUENCES OF DEMONETISATION

The following likely impacts on the economy will be observed if a substantial portion of the cash is either reported or is consumed in the economy

**Tax:** Having closed the voluntary disclosure window for undisclosed money, it has been reported that government will keep a close watch on deposits over Rs 2 lakh in cash. This would mean increased tax net, higher tax collection and a better tax to GDP ratio. Philips Capital in a report says that the extent of parallel economy, which was 23.2% of GDP, is now around 25-30% of GDP. As the money gets accounted and more taxes are collected, government might be tempted to reduce tax rates going forward.

**Interest rates:** One of the biggest impacts of demonetisation would be high value transactions, especially land and gold. This would result in lower inflation, tempting the central bank to reduce interest rates. But the bigger impact on interest rates will be the liquidity with which banks will be flushed. CLSA's points out that banks would benefit with higher CASA (current account savings account) growth as a part of the \$ 190 billion cash pile gets deposited with them. Higher deposit growth and continuing weak credit growth would create opportunities for lending rate cuts and investment activities to pick-up.

**Liquidity:** Movement of goods and money will be hit in the short. A Bank of America Merrill Lynch note says that wholesale channel forms over 40% of the sales for the Indian consumer firms. This channel works mainly on cash transactions and will likely witness liquidity constraints in the near term. This could disrupt the supply chain and impact growth in the December quarter. The report further adds that consumer firms typically provide tight credit terms (<7 days) to the distributors, who in turn provide credit to the wholesalers/ outlets on their own accounts. Due to overall tightening of the cash-liquidity in the supply chain, consumer firms may be forced to offer easier credit

**GST:** Demonetization comes at an important as the country heads to a new tax regime with the implementation of GST. Demonetization would increase the tax net and along with GST result in reduction of black money generation. Along with GST, demonetization will lead to a higher tax/GDP ratio, says CLSA.

**Financial Assets:** As money lying idle comes in the main economy it would move to higher yielding and liquid assets. Money is likely to move to financial assets from gold, precious metals, real estate and plain cash. Equities might reflect the panic in the economy in the short term, but the move is will be

beneficial in the long run say most of the broker's report and expert comments. Effect on parallel economy: The removal of these 500 and 1000 notes and replacement of the same with new 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, - 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:** 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 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 purpose.

**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. CARE's View In spite of the initial hiccups and disruptions in the system, eventually this change will be well assimilated and will prove positive for the economy in the long run

- Black money hoarders will definitely lose out, eventually boosting the formal economy in the long run.
- Short term fall in real estate prices might benefit middle class citizens.
- This move by the Government along with the implementation of the GST will eventually make the system more accountable and

#### **The short-term vs. the longer-term implications**

**The Short-term Impacts:** There will be a disruption in the current liquidity situation as households are likely to get affected by the note exchange terms laid by the government. Though clarity is unfolding on this, commodity transactions

and general cash market transactions are likely to feel an immediate impact. Unorganized sector proceedings, including small trade market activities, will remain volatile in the short-term. Roadside vendors, cab drivers, kirana stores, etc., have already stopped accepting Rs 500 and Rs 1,000 notes. It is important to note that a significant percentage of the Indian workforce is employed in this sector, which is likely to be affected by immediate liquidity issues. Overall, negative impact on disposable income is expected along with likely disruption in the consumption patterns of the general populace. It is estimated that there will be a negative GDP impact in the current quarter as consumption gets a shock in the immediate term. However, quantum and degree of this impact cannot be ascertained at this time.

**The Longer-term Implications:** This essentially represents a change in regime for the real and financial economy. Domestically, there could be some turmoil as the effect will be disproportionately felt by the lower and upper income classes. Internationally, the government is likely to get thumbs up for the move and more countries could potentially see this as a viable option to curb black money and stem illegal financial activity. Last, though this move by the government may not be a first, having been tried by earlier governments as a tool to fight corruption. Such an action achieves larger significance for a globally connected India as it shows boldness in tackling an issue which has remained a thorn in the growth success story of this generation.

#### **FINDING AND CONCLUSION**

Demonetization in India was successful to some extent. The revenue of the central government has increased by 14.4 % and through indirect taxes it is sure to increase by even greater extent. Not only the central government but also it has enhanced the revenue of all the state government and of the local self government. In addition to it financial health of banks has greatly improved a lot of money has come into the banking system. Due to the demonetization they obtained great tool to catch and to prove financial crimes. The biggest drawback was quite evident that the reserve bank had to make the new notes available to the people. Another big failure was that government could not take sufficient steps to interdict black money holders to get their money deposited in other persons account. The banking system even could not timely check the deposited of fake currency during 50 days. On the other hand the positive effect will continue to contribute in the improvement of the economy as well as social political scenario of the county. Therefore to conclude demonetization has both positive and negative impact.

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