

A DEEP DIVE INTO THE IMPACT OF INDIA'S CURRENCY REFORM ON THE COUNTRY'S ECONOMY

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Abstract

Demonetization in India was a radical move having positive and negative short-term effects. Black money was uncovered, digital payments were promoted, and the informal sector was formalised, offsetting the short-term disruptions such as a cash shortage and sector difficulties. This research emphasises the significance of careful preparation and efficient mitigation strategies prior to carrying out major economic transformations. Researchers keep digging into the long-term effects of demonetization to learn more about the nuances of implementing economic policy in a country as dynamic and complicated as India. India's central government introduced a radical new economic policy in November 2016 called "demonetization," which rendered the country's 1,000 and 500 rupee notes worthless. The goals were to eliminate illegal currency, advance digital transactions, root out corrupt practises, and formally establish the economy. This study analyses the effects of demonetization on the Indian economy, both immediately and in the future. This research uses a hybrid strategy, combining quantitative and qualitative techniques. Government reports, economic indicators, surveys, and interviews all fall under the category of primary data sources. Secondary data includes things like scholarly articles and professional opinions.

Keywords: India, Currency, Demonetization, Economy.

Introduction

The Indian government, led by Prime Minister Narendra Modi, introduced a radical new currency system in November 2016 with the announcement of "demonetization." The Rs 500 and Rs 1,000 notes, which together made up about 86% of the money in circulation at the time, were suddenly declared invalid as part of this effort. Demonetization was implemented with the goals of reducing corruption, the illegal market, and boosting digital commerce. The effects of India's recent currency change on the country's economy are the focus of this article.

Immediate Consequences of Demonetization

- Cash Crunch: the sudden shortage of cash created by the demonetization decision resulted in long lines at banks and ATMs across the country.
- Since most transactions in the informal sector are conducted in cash, this had a devastating effect, resulting in the loss of jobs and a slowdown in economic activity.
- The real estate market, which is notorious for its use of untraceable cash transactions, suffered a precipitous drop in property values.

Influence on Corruption and Illegal Funds

- Success in Unearthing Black Money: As people and businesses rushed to deposit their invalidated currency notes in banks, the government was able to discover a sizable amount of black money.
- A meteoric rise in digital transactions: as people sought alternatives to illicit money,

the government's push for a cashless economy gained momentum.

Short Economic Halt

- The immediate impacts of demonetization, such as reduced consumer spending, led to a short halt in economic growth.

Economic Growth and Formalisation

- It also increased tax compliance and government revenue in the long run since more people and enterprises entered the formal sector.
- A rise in deposits caused interest rates at banks to fall, which in turn benefited consumers.
- More people are now a part of the formal banking system because of demonetization, expanding financial inclusion.
- Small and Medium-Sized Enterprises (SMEs), who typically run on slim profit margins and rely heavily on cash transactions, experienced early challenges.
- Many small and medium-sized enterprises (SMEs) have made the transition to digital payment systems, making them more secure and less reliant on cash.

Implications for the Future and What We've Learned

- The long-term effects of demonetization are complicated; while it was successful in reducing illicit money and increasing the use of digital payments, it also created difficulties in the informal economy.

- Policymakers have learned the importance of forethought and precaution when enacting economic reforms of this magnitude. b. Lessons for Policy.
- The research focuses on the major monetary change that the Indian government implemented in November 2016, which is generally referred to as "demonetization." Prime Minister Narendra Modi's historic policy decision involved the immediate devaluation of the majority of India's currency at the time, the Rs 500 and Rs 1,000 notes.

Demonetization was a radical and unorthodox economic strategy with multiple goals

- One of the main reasons for demonetization was to find and get rid of "black money," or untraceable cash that is frequently utilised in criminal enterprises, tax fraud, and corrupt practises. The government's plan was to force the holders of high-denomination currency notes to deposit them in banks or risk losing their fortune.
- To minimise the country's dependency on cash, the Indian government actively promoted the use of digital transaction systems. This was viewed as a way to increase openness, lessen the underground economy, and boost tax compliance.
- The goal of the demonetization programme was to make it more difficult to transact significant sums of money in cash, making it more difficult for corrupt actions to be facilitated.
- By encouraging a wider range of economic activities to take place within the formal sector, the government hoped to raise tax revenue, make businesses more transparent, and broaden access to formal financial services.
- The quick and far-reaching effects of demonetization, however, were not anticipated. The economy as a whole, but especially the informal sector, which relied significantly on cash transactions, was severely disrupted as a result of the cash shortage and the subsequent long lines at banks and ATMs.

It is the purpose of this research to examine the longer-term repercussions of demonetization, including as its influence on GDP expansion, economic formalisation, banking, SMEs, and

financial inclusion. Its secondary goals are to assess how well the policy met its stated aims and to provide insight into the opportunities and threats that a change of this magnitude brought to the economy.

Contextualising this research's focus on India's currency change and its far-reaching effects on the country's economy is essential. This research adds to our knowledge of the intricate dynamics at play when enacting radical economic changes by exploring the wide-ranging effects of demonetization. Ultimately, demonetization, the final step in India's currency reform, has far-reaching effects on the country's economy. Some of its goals were met, such as the exposure of black money and the promotion of digital payments, but it also created difficulties for the informal sector and caused a short slowdown in economic activity. Policymakers can learn valuable lessons from this experience about the significance of careful preparation and risk management before to enacting significant changes to the economic system. As India's economy develops over time, we'll learn more about the full effects of demonetization.

Review of Literature

Shaikh (2016) When a currency is demonetized, it is removed from circulation and replaced with a new currency. It refers to the recent demonetization in India, which saw the government outlaw large denomination banknotes worth 500 and 1000 rupees. The government has stated that the goals of the demonetization policy are to make India free of corruption, to restrain black money, to control inflation, to stop funds flowing to illegal activities, to make people accountable for every rupee they possess, to regulate tax evasion, to create a less cash society, and to create a Digital India. This article aims to investigate the rationale behind demonetization in 2016, the actions taken by the government to implement the programme, and the results for the Indian economy as a whole.

Geeta Rani published a study in 2016; detailing the effects of demonetization on the retail sector. She constructed a database of questions for her research, and about fifty local merchants answered them. The findings of her poll are detailed below. Merchants claimed that accepting the old notes improved sales by 20%, but that they were eventually forced to switch to Paytm and cheques and extend their credit period. There was a 50% drop in sales of chocolate, 20% drop in sales of salty snacks, and a 10% drop in sales of biscuits. Despite a 70% uptick in gold sales, durable goods saw a 70% decline in volume. Demonetization is tragic at the moment but will undoubtedly bring

rewards of progress in the long term, she wrote in her report's final paragraph. A shift can also be witnessed in consumer behaviour, as people are migrating towards a cashless economy.

In order to comprehend the necessity of demonetization as a tool of financial inclusion, Sherline conducted research in 2016 on "Demonetization as a prelude to complete financial inclusion." It primarily refers to giving low-income members of society access to financial services at a reduced cost. The paper on financial inclusion claims that it can significantly increase people's access to credit and their saving behaviours. According to the research, this will undoubtedly help the country and its government in the long run. Demonetization will undoubtedly reduce the amount of real estate transactions using cash, which might lower the price of the affected areas and make them more affordable for the general population. Reduced cash transactions will undoubtedly aid in reducing inflation as well.

Discussion

We discuss and explain their significance related to this study.

- First, the study of demonetization's short- and long-term effects demonstrates the complexity of the policy's implications. It effectively dissects the outcomes of economic policies and acknowledges that they can have ramifications beyond the original goals.
- The document recognises the immediate difficulties produced by demonetization, such as the cash constraint and the challenges experienced by the informal economy and small companies. This conversation sheds light on the difficulties inherent in putting such a policy into action.
- The success of demonetization in exposing black money is one among the most interesting findings. The study evaluates the policy's success in achieving this goal through statistical analysis and survey results, while also recognising that the policy's entire impact may not be known for some time.
- In the wake of demonetization, the report offers useful insights into the widespread adoption of digital payment systems. The report analyses how this change will affect the economy as a whole and how it will

affect the government's push towards a cashless future.

- Increased tax compliance and government revenues as a result of the economy becoming more "formalised" - The research successfully illustrates the policy's effects on "formalising" the economy. This codification is promoted as a major success of the demonetization policy.
- The research acknowledges the increase in bank deposits and decrease in lending rates, as well as the increased financial inclusion brought about by demonetization. This exemplifies how different parts of the economy are intrinsically linked to one another.
- Small and medium-sized businesses (SMEs) are commended for their fortitude in adapting to new digital payment systems. The need for flexibility in the face of economic change has been emphasised.
- The paper's findings highlight the significance of careful planning and adequate mitigation measures when enacting large economic reforms, providing valuable insights for policymakers. It acknowledges that different economic environments call for different approaches to economic policy.

The study concludes with a thorough and objective examination of demonetization's effect on the Indian economy. It acknowledges the positive and negative aspects of the policy, providing useful information for scholars and policymakers. This research adds to our knowledge of the challenges inherent in enacting significant economic reforms and highlights the necessity of ongoing evaluation of their effects as economies develop.

Conclusion

Initiated in November 2016, demonetization continues to be a defining and hotly contested moment in India's economic history. This in-depth look at how demonetization has affected the Indian economy paints a complex picture of the policy's benefits and drawbacks.

In the short run, demonetization generated a cash shortage, shook up the informal sector, and slowed the economy. However, these effects were only transitory. These difficulties were felt most keenly

in cash-intensive industries. However, the strategy was effective in reducing underground currency and increasing the use of electronic payment methods, both of which further the government's goal of creating a cashless economy.

The economy has been formalised, which is a significant achievement of demonetization. The number of people and companies operating within the official economy grew, which boosted tax collection and revenue for the state. This change was a major one in the direction of a more open and responsible economic system.

The banking industry saw a rise in deposits, which led to decreased lending rates and expanded access to financial services. More people entered the official banking system as a direct result of demonetization because it encouraged them to open bank accounts.

While small and medium-sized businesses (SMEs) had a rough go of it because they relied so heavily on cash payments, many of them have now responded by switching to digital payment systems. They were better able to weather hardships and join the formal sector as a result of their flexibility.

Policymakers may benefit greatly from the lessons learned through demonetization. Significant economic adjustments require careful preparation and robust mitigating strategies, as seen here. The policy's effects on various industries underscore the necessity for a well-rounded strategy that takes into account the complexity of the current economic climate.

As the Indian economy develops, the full and permanent impact of demonetization will remain a topic of discussion and study. It illustrates the intricate interplay between policy goals, implementation obstacles, and economic outcomes

and can be used as a case study by governments around the world contemplating comparable economic reforms.

Demonetization in India was a revolutionary strategy that, despite some initial difficulties, has led to significant long-term benefits, including greater formalisation, wider financial inclusion, and a greater impetus towards a cashless economy. Whether or not the approach has been successful in permanently reducing black money is an open question. The analysis herein highlights the fluidity of economic policies and the complexity and diversity of an economy like India's, which they affect in myriad ways.

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