

**Demonetization and Its Impact:
Political and Economic Perspective**

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DECLARATION BY STUDENT

I hereby declare that the data presented in this Dissertation report entitled, "**Demonetization And Its Impact: Political And Economic perspective**" is based on the results of investigation carried out by me in the **Political Science Programme** at the **D.D Kosambi School of Social Sciences and Behavioural Studies, Goa University** under the supervision of **Dr. Rahul Tripathi** and the same has not been submitted elsewhere for the award of the degree or diploma by me. Further, I understand that Goa University or its authorities will not be responsible for the correctness of observations/ experimental or other findings given in the dissertation.

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Abstract

Demonetization is a surgical strike by Prime Minister Narendra Modi. It was announced on television, to withdraw the currency notes of Rs.500 and 1000. The major aim of this decision was to curb black money in the country. There are both economic and political reasons behind this decision. This paper covers the history of demonetization in India and also in various other countries that tried demonetization like USA, Britain, Soviet Union, Pakistan, Ghana, Zimbabwe, Myanmar, Venezuela, European Union and Nigeria. A survey was conducted with around 50 respondents in Ponda taluka to understand people's perspective. The purpose of the study is to analyse the impact of demonetization on different sectors of Indian economy and briefly understand the difference between 2016 and 2023 demonetization in India. This present paper will analyse the economic and political perspective behind demonetization and also the impact of this decision on different sectors of economy.

Keywords: Demonetization, Black money, Counterfeit currency, Banks, Corruption, Digital payment system

CHAPTER 1:
INTRODUCTION

Introduction

Demonetization is the process of stripping a currency unit or withdrawal of currency as a legal tender. In India five times demonetization took place in different years. First it was in 1946, when currency notes of Rs.1000, 5000 and 10000 were removed from circulation. Second time when Morarji Desai was Prime Minister in 1978, the currency notes of Rs.1000, 5000 and 10000 were removed. In 2014, third time demonetization takes place, where RBI declared that all notes before 2005 would be withdrawn from circulation. Fourth and fifth demonetization was taken place recently in 2016 and 2023 under the leadership of Prime Minister Narendra Modi. On 8 November 2016, the currency notes of Rs.500 and 1000 was removed and in 2023, Rs.2000 were removed from circulation.

In 1946, British government demonetized the notes of Rs. 5000, 1000 and 10000 following the other foreign countries of France, Belgium and U.K. British government in consultation with RBI Governor Chintaman Dwarakanath Deshmukh took this decision. The reason behind this decision was Second World War and increasing operation of black money. But in 1954, this demonetized notes were reintroduced. On 16 January 1978, under the leadership of PM Morarji Desai from Janata Party demonetized the currency notes of Rs 1000, 5000 and 10000 under the ordinance of high Denomination Bank Notes, 1978. Finance Minister HM Patel said that this decision was taken to control illegal transactions and against anti-social elements in his budget speech on 28 February 1978. Under the leadership of PM Narendra Modi demonetization takes place twice in the year 2016 and 2023. On 8 November 2016, currency notes of Rs 500 and 1000 was demonetized and issued new notes of Rs 500 and 2000. As this was a quick action because PM Modi announced this decision on television and the time period given for exchanging old currency is too short which will result in fear and insecurity among peoples. Also there was a long queue outside the banks for exchanging old

currency and people had to wait for a long time. According to Modi, this will help to curb the black money and also reduces the use of cash in terrorism and illegal activities. But RBI Deputy Governor said that it will push digital payments. Recently on 19 May 2023 PM Modi demonetize the notes of Rs 2000 which he said is a part of clean note policy. Till 30 September 2023 old notes were exchanged.

Government demonetized old currency because of many reasons such as:-

- To curb out the money from illegal activities,
- To fight against inflation,
- To make cashless economy,
- To lower the circulation of cash as it is directly linked to corruption,
- To eliminate the circulation of fake currency.

Demonetization which took place in 2016 mostly affected the poor people as cash was their daily source of income and some people who saved some amount of money in their homes had to wait for a long time in a queue outside the banks for exchanging their old currency. Wealthy people were able to secure their money as they found many ways for it. Some people criticized the government for doing demonetization as they said that government had taken this decision for their benefit. Nowadays, due to demonetization people go cashless as they use paytm, debit card, credit card etc. There are both pros and cons to demonetization. As it helps to curb the money from illegal activities. In some remote areas there were no banks so they had to go in urban areas for exchanging their money and wait for a long time there. Also there were some people in rural areas who do not have bank account or identification proofs, demonetization affected them directly.

There is not only economic reason behind demonetization but more of political one. During the time of election PM Modi promised that he will return black money from foreign tax

heavens and redistribute it amongst the poor but his steps were not much effective so to prove his commitment he takes the decision of demonetization. Another reason was that to erode the funding of opposition which will benefits the ruling party. As it was the experience from the past history because previous demonetization takes place mostly for the political ploy. Although government had said that it is for economic purpose which is definitely not because it had a dangerous long term consequence.

According to bureaucrats, government had not consulted with their cabinet nor with bureaucrats about demonetization. While taking the decision, bureaucrats were not taken into consideration and they were called only to inform about it. As the government already planed about it in advance. Government executed the decision without much information about what will happen after it was implemented. Also government had no idea about its impact in rural and semi urban area and whether the new currency reached to them or not. Jury is still finding that how much plan is done before taking the decision. Ten months preparation had done before taking the decision said by PM Modi but there is no official work had done. Another problem was that no one knows about the problem which will create in future while accepting the higher denomination notes. Also RBI governor had a realistic evaluation about the plan since it had all the data.

2016 demonetization was different from 2023 demonetization, as there is not much drama and it was planned. Which is also called as mini-demonetization. Also people are using digital transaction, so there is not much fear among the people and much time is given for exchanging the old currency. 2016 demonetization is considered more as a political move then economic because there is no support from RBI and it just revolve around 2014 BJP's election. But 2023 demonetization has both economic and political will. As it was the decision of RBI under it's 'Clean Note Policy' to take away low velocity notes.

History of Demonetization in India

Till now four times government had taken the decision of demonetization in India for various reasons, as the most important one is to curb black money. So let us discuss the history of demonetization one by one.

First demonetization in India took place during the British government in 1946, when the Governor of RBI Chintaman Dwarakanath Deshmukh and the British government decided to demonetize Rs.500, 1000 and 10,000 notes. The RBI issued two ordinances, during the implementation of decision. Their main aim was to curb black market operations, as it was a result of WW II. From influencing India, other countries also taken the decision of demonetization such as France, UK, Belgium, etc. But in 1954, demonetized notes was reintroduced by Central Bank.

In 1978, second time demonetization takes place in India. A direct tax inquiry panel was set up by Indian government to trace and prevent the spread of black money. And named it as Wanchoo Committee which was led by Kailash Wanchoo, the former Chief Justice of India. After few years, PM Morarji Desai government issued demonetization under 1978 High Denomination Bank Notes Ordinance, which came into effect on 16th January 1978. At this time government demonetized Rs.1000, Rs.5000 and Rs.10,000 notes. According to Finance Minister of that time HM Patel, this measure would help to control illegal transactions and combat anti-social elements. But later under Atal Bihari Vajpayee government, the demonetized notes of Rs.1000 was reintroduced in November 2000.

Third demonetization was on 22nd January 2014, as RBI declared that all notes which was issued before 2005 would be withdrawn from circulation. Reserve Bank helped the people to identify such notes by declaring that those denominations did not have the year of printing on

their reverse side were the note which was issued before 2005. Also, they said that this notes has very few security measures compared to the notes issued after 2005.

Fourth demonetization was most remembered as it created panic among people. Also, it affected every sector of Indian economy. On 8th November 2016, Prime Minister Narendra Modi declared demonetization on television broadcast and very short period was given to people to exchange old currency with new one. He demonetized the notes Rs.500 and Rs.1000 and issued new notes of Rs.500 and 2000.

Recent demonetization takes place on 19th May 2023, where RBI declared to withdraw the currency notes of Rs.2000 notes from circulation, as a part of 'Clean Note' policy. Ample of time given to people to exchange old currency notes with new one which was till 30th September 2023.

Demonetization in Different countries

Other than India demonetization also takes place in other countries of the world. So let us discuss how many countries has gone through demonetization process:

❖ USA (1873 and 1969)

USA was the first country to demonetize its currency in 1873, where the coinage act of 1873 removed silver standard and adopt gold standard as the legal tender. It was resulted in contraction of money supply which subsequently led to five year economic depression in the country. But due to the dire situation and pressure from silver miners and farmers, it forced the implementation of Bland Allison Act 1878 to re-monetized silver as legal tender.

In 1969, President of USA Richard Nixon declared that all bills above \$100 was null and void in the USA to curb the existence of black money. This move was highly successful as it claimed that it had been the starting of development of banking system in America.

❖ **Britain (1971)**

To bring the uniform currency circulation in the country, government discontinued the old currency of pence and pound in 1971 and introduced new coins of 5 and 10. But the policy was successful only in Britain and failed in other sister countries.

❖ **Ghana (1982 and 2007)**

Demonetization had taken place in Ghana for two times. First in 1982, when the old 50 cedi currency was demonetized with the aim to stabilise economy and restore the confidence of public in the national currency. There are many other reasons such as rises of inflation, reduce tax evasion, curb corruption and black market activities and also to manage liquidity. But this decision was highly unsuccessful because the public lost the confidence in banking system and move towards foreign currency and physical assets which make the economy weak. Also, the fresh black market for currency came up suddenly.

In 2007, second time demonetization takes place to introduce new currency series and also to eliminate counterfeit currency. This time the country undergone through demonetization to enhance the security features of the currency and maintain its integrity.

❖ **Nigeria (1984)**

Under the Muhammadu Buhari, the military government issued new currency notes and make the old notes obsolete. Which aimed towards fixing a debt-ridden and inflated economy but it failed miserably.

❖ **Myanmar (1987)**

In Myanmar (formerly Burma), military banned currency notes, where they invalidated nearly 80% of the value of money to curb rising black money and tackle the issue of counterfeit and corruption in the country. To promote transparency in financial transactions and establish control over the money supply, existing bank notes was replaced with new one but it was of no success.

❖ **Soviet Union (1991)**

In January 1991, the usage of 50 and 100 Rubel notes was banned under the leadership of Mikhail Gorbachev, which formed about one third of the total money in circulation. Because after the disintegration of Soviet Union, several soviet republics were severely affected such as Ukraine and Kazakhstan. So Mikhail Gorbachev thought that it was a step to eradicate black money and also to be in favour of economic upliftment of the country because economic activity headed towards a major downturn and people started to lose faith in the government. But it was unsuccessful as Gorbachev faced a coup in August 1991.

❖ **Australia (1996)**

Australian government withdrew all paper based notes and replaced them with long life polymer based notes of same denomination to improve the security features and curb black money in the economy. The move was successful in improving the life of

the bill as despite the initial cost incurred to manufacture polymer based notes, it helped to make Australia a business friendly country.

❖ **European Union (2002)**

European Union demonetized existing currencies of 12 countries and introduce a unified currency 'Euro' on 1 January 2002. Through 218,000 banks, post offices and 2.8 million sales outlets, the new notes of about eight billion and 38 billion coins was distributed. Also, large proportion of nine billion national notes and 107 billion national coins was collected simultaneously. Due to the prior preparation which started in mid 1998 and informing the citizens in advance made this decision successful.

❖ **North Korea (2010)**

In order to bring economic prosperity and halt black market, the dictator of North Korea Kim Jong II announced currency changes. But due to increase in the prices of necessity goods, people started criticizing the decision of dictator and resisted the move which resulted in murder of the finance minister.

❖ **Zimbabwe (2015)**

In 2015, the government of Zimbabwe decided to replace their dollar with American dollar, so that their economy will stabilise which was racked by hyperinflation. But due to the adverse effect on the economy, the decision became unsuccessful. Most of the wealth holders saw that the value of their accumulated savings was receding. Also, the exports took a major hit due to the loss of competitiveness and hyperinflation became worse.

❖ **Venezuela (2016)**

The President of Venezuela, Nicolas Maduro announced demonetization of 100 Bolivar notes which form 77% of total nation's cash in circulation. Their aim was to curb the rising inflation rate which has reached to 425% and also to tackle the growing threat of transnational mafias which were breeding in the country. Citizens were informed about the withdrawal of currency 72 hours before but due to the violent protest in the country, government extended the deadline for the use of old currency.

❖ **Pakistan (2016)**

On June 2015 Pakistan seized the effectiveness of currency notes of Rs.5 and 500 to eradicate the root of black money from the country. People were given 18 months to exchange their old currency and all the old currencies have been declared null post on 1 December 2016.

Literature Review

Kaur, Sharma and Garg (2017) broadly analysis the pros and cons of demonetization in India. Here they pointed out some of the pros, as how this decision will affect the corrupt practices, as they no longer will sustain because their money will be recorded. Due to this decision there should be cashless society and it reduces the risk as there is no large amount of cash with people. Also it helps banking system to improve because of cashless society which will increase credit access and financial inclusion. As people will deposit their money in banks and it can be put on loan so it will generated due to which there will be fall in inflation. While pointed out the cons, they defined how this decision in making India cashless creates

problems in initial days. As people were not very much experience about card transactions. Also banks faces a lot of problems because ATM's were refill more often. In initial days it causes lots of problems but later on government were able to solve that problems.

Ms. Paramjeet Kaur (2017) discussed about the positive and negative sides of demonetization and also to find reality behind this decision taken by PM Narendra Modi on 8 November 2016. He reviewed the impact of demonetization on Indian economy. According to him demonetization will helps in cashless economy, enhanced tax collection, lowered tax prices, control terrorism, etc. The side effect of this decision was it had a long term impact on real estate, creates problems for public, affect the labourers and also it affected India's GDP. At last had given some recommendations in which he said that government appealed that people may suffer due to this decision but it would be short term and in long run they will be benefitted and people were accepted this. But there is doubt in public whether it would be benefitted to them in future or not and when? Also, when RBI announced that the banks should submit the CCTV recordings during the transition phase but he pointed out through survey that banks do not have CCTV cameras and in some banks where CCTV cameras are there they were not working.

Sinha and Nayak (2021) presents how the rise of Hindutva politics (BJP) affected MSMEs in India. Under BJP government, economic policies were reflects the ideology of hindutva. BJP called for aggressive economic development which is in the form of privatization, technology and digitalization. MSMEs plays a vital role in developing countries in their economic and social development. MSMEs creates largest employment opportunities which are comparatively less capital intensive in nature after agricultural sector. MSMEs also helps in industrial development as it constitute more than 80% of total industrial enterprises. In India major transaction takes place in cash and after demonetization it affected MSME sector due to which countries economic wellbeing is also affected. According to author's, due to

demonetization MSMEs were decline because of shortage of cash and fall of demand. Also the level of unemployment increases in MSME sector.

Muthulakshmi presents the issues and challenges faced by Indian economy due to demonetization. She mentions how the sudden stop of currency will affect everyone in long term and short term period. Also she mention about the positive effect of demonetization which help India in future.

Kaur (2018) attempts to identify the impact of demonetization on common people of India. The main objective of his study was to study the impact of demonetization on different sector of the economy and the common people. His study was based on both primary and secondary data. He collected primary data through survey in Amritsar District and secondary data from various journals, online sites, books, etc. This paper concluded that demonetization has both positive and negative impact on different sectors of India. But the negative effect is short run. During demonetization people faced lots of difficulties in the exchange of old currency. Also he pointed out that the main objective of demonetization is to reduce black money but inspite of this so many problems related to demonetization is not solved till now.

Goel's (2022) discussed about the impact of demonetization on Indian banking sector. For this article he collected the data only from secondary sources. In this article, he discussed various causes of demonetization like black money, fake currency, corruption, digitalization and terror funding. Also he pointed out the impact of demonetization on banking sector such as effect on banking operation, deposits with banks, cost of replacement and workload on banking bank employees.

Das and Routra (2017) attempted to assess the impact of demonetisation on black money, bank deposits and interest rate, counterfeit currency and other impacts such as impact on parallel economy, money supply, demand, and prices. Also, he presents the various steps

taken by Indian government for the success of demonetization. For this study the author's collected the data from various secondary sources.

Verma and Sahni (2021) stated how demonetization helps in cashless payment system. Government also encourages the people to make use of cashless payment system, which is easy to use and available all the time. For this research, authors collected data from secondary sources. They pointed out the number of benefits of cashless payment such as ease of doing transactions, security of transactions, low crime rate, speed of transaction, maintain record of the transaction and reducing the risk of transmission of disease. Also he presents some drawbacks of cashless system of payment which include increase in cyber-crime, people with no technical knowledge and risk of over spending. He also draws the picture of electronic payment system of representative data and year wise electronic payment and explained it with the help of graphs. At last he conclude the positive impact of demonetization on cashless payment and how people slowly aware about digital transactions.

Adil and Hatekar (2020) presents the picture of digital India's pace of development and problems of trust because after demonetization there is digital payment method and new problem exists which focuses on people's trust over banks and new technologies. A study is conducted to see whether demonetization would support digital India/ cashless economy or not by utilizing the Global financial Developmental Database of the world Bank in which they studied 206 countries of the world. After conducting various diagnostic test, it is suggested rather than demonetization increasing the use of debit and credit cards are more effective. At last, he concluded that how people will retain trust in digital payment but there would required some skills.

Jawed, Dhaigude and Tapar (2019) examines the sector wise impact of demonetization in Indian stock market. They studied the impact of demonetization on Indian affiliation type of

20 broad industrial sector in the period from November to mid January. They conducted parametric and non-parametric tests. The result of this tests was short term price impact and long run price reversal. Lastly, they concluded that there is different effects of demonetization on Indian economy which is ideologically different.

Hussaini (2021) examines the impact of demonetization on Indian banking sector. He studied how the changes occurred after the decision had taken by the government, such as increase in deposits, demand for government bonds, liquidity crunch and digital payments. By presenting the data through tables and pie charts, the author discusses about the overall impact of demonetization on Banks.

Asthana (2022) attempted to analyse the impact of demonetization on small and medium business and how they become cashless economy. He examined the transition of India to cashless economy and the initiative which was taken by the government on it. Also, he discuss about the growth of small and medium sized businesses after becoming cashless. At last he presents the positive impact of demonetization on education and infrastructure.

Jadhao (2017) presents the picture of Indian farmers, as demonetization hit the farmers very badly. Cash was their medium of transaction on daily basis, as they need cash in their hand to buy farm products. And due to shortage of cash they faced lots of problems. Author also examines other countries that have tried demonetization and their status whether it was successful or not.

Gupta examines the impact of demonetization on various sector of India, where he specifically talks about real-estate, agriculture, E-commerce and tourism. He made a detail analysis of how demonetization affected this sectors both positively and negatively and also short term and long term impact of it.

Govindasamy (2017) analysed the impact of demonetization on agricultural sector in India. Where he discusses about the problems faced after demonetization on perishable commodities and fertilizers. Also, he examines long term and short term impact of demonetization on agricultural sector. He gave a brief overview of how the agriculture was affected due to this decision.

Objectives of Research

This research will seek to explore the following objectives:-

- To analyse the political and economic context of the demonetization process in India.
- To discuss the impact (positive and negative) of demonetization on various sectors of India.
- To identify the various problems faced by people.
- To know the difference between 2016 and 2023 demonetization.

Research Questions

This research will find the detail information and solutions of following research questions:-

- What is the impact of demonetization on Indian economy?
- What difficulties faced by local people in India?
- How 2016 demonetization is different from 2023?

Research Hypothesis

Hypothesis is a tentative statement, a researcher should make before doing a research which may be proven and disproven later on after getting a reliable data. In order to understand this topic, the following hypothesis are framed :-

- 1) Demonetization does not appear to have made a major impact on Indian economy.
- 2) The political context of demonetization indicates that people externalized the hardships caused by delinking their electoral choices with the decision.

Significance of the research

The present research paper was aimed to understand the actual reason behind demonetization and impact of it on different sectors of India. Also, to examine the people's perspective on this decision. It is important, as it helps the reader to know about the reality of demonetization and how it affected everyone in the country. This research will benefit every reader who wants to know the reality of the demonetization in India. And also, to see the major role of politics in it.

Research Methodology

This paper is based in both qualitative and quantitative data. For the purpose of research, primary data was collected through a close ended questionnaire, which was designed beforehand. And for secondary data, few books and many online articles and journals related to the topic were referred. The secondary sources help to explain the review of literature and provide detailed information on the topic.

Scope of the Research

The scope of this study was limited to the political and economic perspective and its impact on some of the important sectors only and not on other sectors of India. This study is focused on analyzing the data from political and economic perspective and analyzing the impact of an event i.e demonetization, whether it gave a boost to the economic sectors or caused a depression to them. Also, the researcher tried to find out whether all the impact of demonetization was temporary or it will have some impact in the long term also.

Limitation of the Research

The paper is based on available information collected through questionnaire from 50 respondent only and secondary information published in online articles and journals. The research sample size was limited and geographical area of survey is Ponda Taluka for primary data. Unavailability of books on demonetization due to which only few books was referred. The impact of demonetization was limited only to some of the most important sectors of India.

Roadmap for the Research

Chapter 1 – Introduction

This chapter will deals with the introduction which will include basic meaning of demonetization, history of demonetization in India, demonetization in different countries, literature Review and methodology.

Chapter 2 – Reasons behind Demonetization (Political and Economic Perspective)

This chapter deals with reasons behind demonetization in India which will specifically deals with political and economic perspective.

Chapter 3 – Impact of Demonetization on Different Sectors of India

This chapter deals with impact of demonetization on various sectors of India. Which will cover both positive and negative impact of it. Also, we will cover the difference between 2016 and 2023 demonetization in India.

Chapter 4 – Data Analysis (People’s perspective)

This chapter deals with people’s perspective, where a survey is conducted through close ended questionnaire. The questionnaire was pre designed.

Chapter 5– Conclusion

This chapter is about Conclusion, and major findings.

CHAPTER 2:

REASONS BEHIND DEMONETIZATION

(POLITICAL AND ECONOMIC PERSPECTIVE)

Demonetization was announced by PM Narendra Modi on 8 November 2016, it was a surgical strike against the three main issues: black money, counterfeit currency and corruption. But the actual reason behind this decision was political one, as they want to fulfill their promise which they made during election. Also, there are many other reasons behind demonetization, which we discuss in the following chapter. Basically, the government takes the decision of demonetization to bring stability to country's currency, as it was major move or war to fight against corruption and black money. In 2012, the Central Board of Direct Taxes recommended that demonetization was not a successful strategy and may not be only solution to curbing black money. Because the percentage of black money they have in the form of cash is less, which is only 6% or less, and more in the form of benami properties, bullion and jewelry. But without collecting much evidence and thinking about the future problems, PM Modi demonetized high – denomination notes, which became a bold step and a hotly debated topic due to which there has been a loss in GNP (Gross National Product). Also, it created a huge suffering and disruption among the people. The government had many goals behind their decision of demonetize, but they were unsuccessful in meeting their major declared goals. There is huge criticism of the government for demonetizing high denomination notes. Also, opposition leaders criticise them because demonetization affected them badly. There are many perspectives behind the reasons of demonetization, but here we are going to discuss the two most important perspectives, which are political and economic.

Political perspective

The government had taken such a major decision without any preparation and evidence. Their main issue was to fulfill their promise, and due to this, they did not think about the problems they would face in the future. They said that there were economic reasons behind it,

but their main aim was to maintain their electoral position in the coming assembly elections in some states because demonetization was used as a tool to influence the opinion of the people towards government.

At the time of 2014 election campaign, Narendra Modi promised that he would eliminate the corruption, curb black money and redistribute it among the poor. But after so many efforts, he wasn't able to keep his promise, and people started criticising the government. So to distract the attention of the people from this, they took the decision of demonetization without thinking about the problems faced in the future, like losses in GNP, because they do not have any other option than to demonetize the higher-denomination notes. They frame the policy problems in such a way that it will help them win electoral support in the future. They did not have any other solution to divert the attention of people towards the failure of their commitment and other existing problems. Due to this, there was a huge tussle between the BJP government and opposition, and the winter session of parliament was entirely based on it. Also, opposition parties organised many protests against government in different parts of India, but it they were unsuccessful.

This decision helps the BJP government set an agenda for the state assembly elections that are coming in next few months, where they take out their political strategy of demonetization policy, which would create problems among the other parties due to a shortage of cash. Also, the black money that the party leaders will distribute among the people has become worthless, and they are not able to maintain their position. Which will in turn help the BJP expand its base in these states, as demonetization was a pro-poor measure. Uttar Pradesh was the biggest, most crucial and most populous state, having won the majority of 77% seats in the March 2017 State Assembly election. The BJP also won in other states like Goa, Manipur and Uttarakhand.

Earlier demonetization was based on the situation, as there was really a need to curb black money. But in 2016, PM Modi took the decision to demonetize to fulfill his promise. Although there is also a need to curb black money and other things, the main reason was to sustain his position. This shows that the BJP government is more pro-active than previous ruling political parties. In this decision, Modi put his creditability because it is seen that in 1996, when the BJP led a coalition called National Democratic Alliance (NDA), which came into power under the leadership of Vajpayee and lasted only for a short period of time, the government did not take such a decision. Earlier, PM Manmohan singh had limited powers to take decisions, but at this time, PM Modi boldly took the decisions. In 2016, demonetization became successful only because the BJP government had faith on Modi's personal integrity. If this decision was taken by another political leader, then the result may be something different. Modi knew that due to this, people were suffering from the pain, and to maintain his clean image, he revolve around the message that he had no possession for power or wealth, but he wanted to do good for the people.

Economic perspective

The government had given many economic reasons behind the decision to demonetize in India. Their main goal was to eliminate black money. Here we are going to discuss some of the important economic reasons in detail and came to know whether the goals of government become successful or not.

Eliminating Black Money

Curb out the black money was a prime target of the government because demonetization was a major obstacle for black money. Black money is the storage of unaccounted wealth, or the

money that is earned without paying tax but does not remain economically unproductive and is circulating in the economy in regular business transactions. Because after this decision, there would be withdrawal of currency in circulation, and due to this, black money holders would face problems. The government assumed that a larger amount of black money would not be deposited in the banks and would automatically be eliminated from the economy. Also, they assumed that black money was stored in the form of cash, and after this decision, that money would be deposited in the banks for exchanging old currency notes into new notes, and due to this, the government got the profit. The Reserve Bank of India transfers that money to the government, and the government spends that money on the country's development. To end the poverty in the country was one of their major goals. In 2007, the estimate available to World Bank reported that there was 23.7% of black money estimated in the economy. But the annual report (2017-18) of the Reserve Bank of India estimated that 15.31 lakh crores was deposited in banks, which represents 99.3% of total currency because, at the time of decision, there was 15.45 lakh crores of high-value currency notes were in circulation. Also, it was informed in the parliament that there is no estimate of black money. Despite the decision to demonetize, black money holders were able to secure their money.

Break the Grip of Corruption

Demonetization was framed to destroy the wealth of corrupt people because that wealth was unreported or illegal. Due to corruption, inflation becomes worse, which will affect the purchasing power of poor and middle-class people. Corruption was done with high-denomination notes, so with the decision to demonetize, it would be difficult for corrupt people to bribe someone. Also, the new currency notes have security features, so it will become impossible for corrupt people to take bribes from someone. In India, there is

widespread corruption at top, middle and bottom levels where bribes are paid to public officials to do something illegal or otherwise. If bribes are paid to public officials, then they do any work without taking much time.

Curbing Counterfeit Currency

Counterfeit currency means a fake currency note that was in circulation in the economy. It is also known as Fake Indian Currency Note (FICN) for media and official purposes. However, there is no accurate estimate of how much counterfeit currency was in circulation, but some major sources on counterfeit currency notes were available.

- ❖ A report that was placed in the Parliament by the Center before demonetization was estimated that 0.022% of fake currency notes were there in circulation, and this study was done jointly by National Investigation Agency and the Indian Statistical Institute.
- ❖ RBI board estimated Rs. 400 crore of fake currency notes before the decision was announced and said that in comparison to the size of the economy, this amount was not so important and demonetization would not have much effect.
- ❖ According to the 2013 report of the Financial Action Task Force (FATF), the counterfeit currency of Indian notes comes at ninth place in terms of value, and in terms of number, it comes at third place around the world.

The government knows that demonetization has a short-term effect on counterfeit cash because, after demonetization, the anti-nationals will take some time to develop a technology and print new currency notes. So the old currency notes will become worthless pieces of paper. The strength and spread of terrorism can be addressed after demonetization because

the fake currency was mostly used for terror financing. Various agencies comes up with their reports, which tells us the how much fake currency notes was recovered, but the value varies.

- ❖ It was revealed by National Crime Record Bureau (NCRB) that various enforcement agencies grab 1,78,022 notes of Rs. 1000 and 2,99,524 notes of Rs. 500.
- ❖ According to the National Crime Control Bureau (NCCB), the value of fake currency seized by law enforcement agencies across the country in 2016 was Rs. 243.33 crore.
- ❖ But banking sources estimated that the amount of fake currency recovered by the RBI was less as the actual number of fake currency was more than that.

Demonetization was the most effective and brilliant move to tackle this issue.

Controlling Terrorism

The major source of terror financing was counterfeit currency notes and black money. This income is used to fund drug trafficking, smuggling and terrorism. This fake currency was spread by individual terrorists among the terrorist networks. A forensic examination of counterfeit currency suggested that the fake currency that was grabbed by the law-enforcing agencies was produced in liaison with sovereign states. Like in India, there was a close relationship between terrorist financing and hawala, which is a route to fund terrorists. According to investigating agencies, India's fake currency notes were printed in Pakistan by their state actors in the printing press of Punjab, Balochistan, and along the line of control (LOC), and the paper used for printing fake currency notes was the same as that used for printing Pakistani currency. They courier this fake currency through the infrastructure of international organised criminal organisations and hawala networks. Like the Lashkar-e-Taiba, Jaish-e-Mohammed, Hizbul Mujahideen and Indian Mujahideen (Ramachandran,

2017). Their various hawala networks were in South Asia, in the states of Karnataka, Kerala, Andhra Pradesh, Gujarat, Maharashtra, Bengal, Bihar and Jammu and Kashmir. Also, neighbouring countries like Nepal and Bangladesh were involved in the transfer of fake currency notes to India. Countries like United Arab Emirates, Thailand, Malaysia, Sri Lanka and China are some of the important routes to transfer the fake currency notes. So to control the terrorist financing, which was mostly in the form of black money and counterfeit currency, the government took this decision.

Interest rates and Inflation

Another important reason behind demonetization was the interest rate and inflation. The government claim that demonetization will lower the interest rate in the banking system. Arun Jaitley, Minister of Finance and Corporate Affairs, said that “banks are now flushed with funds and these low-cost funds are going to be lent at much lower rate”. According to PM Modi, a lack of cash will create difficulty, but an excess of cash will even create more difficulty because whenever there is a surplus cash, it creates inflation and black marketing, which will affect the poor in their due. When demand greater than supply, it leads to inflation because demand is advocated by the access to means of payment, which may be in the form of cash or deposit. Black money and corruption also fuels inflation. In the real estate sector, prices have continuously remained high due to the involvement of black money, which is in the form of currency notes, although some of them were able to convert that money into real assets. So after demonetization, the amount that was kept in the form of currency will be addressed. Due to this, the prices of land and houses were reduced, which helped the poor and middle-income groups. Arvind Panagariya, who is the vice chairman of NITI Ayog, also said that demonetization will help to bring down inflation.

Expanding Fiscal Space

If black money is unearthed, then it will expand the fiscal space of the government. They assume two condition here. One is that when black money or unaccounted cash is not returned to the banks, the Reserve Bank Of India (RBI) uses the savings as a dividend by paying it to the government. And second, when the unaccounted cash revealed voluntarily, it is subjected to 50% tax as per the Taxation Laws Bill, 2016, and if the tax authorities detect the unaccounted cash, it is subjected to 75% tax.

Promoting Digital Transaction

Demonetization helps the country in becoming digitalized and cashless economy. It helps to shape the structure of the informal economy by reducing the extent of transactions in cash. Also, due to demonetization, there will be a shortage of cash, which will force people to use cashless payment systems like credit cards, debit cards, online mode, etc. According to Modi, transaction in cash are directly related to corruption in India. It is assumed that due to digitalization, the transaction will be in online mode, where everything is recorded and monitored, which will reduce tax evasion and corruption. Also, it will help the country to become digitalized in the future.

Demonetization: Success and Failure

From a political perspective, the goal of the government was to maintain their electoral position, and Modi's aim to maintain his clean image was successful. Also, BJP government was successful in winning the state assembly elections in states like Uttar Pradesh, Goa,

Manipur, and Uttarakhand. So we can say that political perspective of demonetization was successful.

The main economic target of demonetization was to eliminate black money from circulation in the Indian economy, but according to many reports, this target was not successful. During the demonetization period, the government expected that due to demonetization, at least Rs.3-4 lakh crore black money would get extinguished outside the banking system, but in February, 2019, Piyush Goyal told the parliament that through all anti-black money measures, including demonetization, they recovered 1.3 lakh crore of black money. This clearly shows that their target of unearthing black money was largely unsuccessful. There are many reasons which came to light, like the large amount of black money that was deposited in banks outside the country; other reasons may be that the black money was stored in the form of gold, benami properties, etc. So the government shifts its goal from curbing black money to digitalization. They gave digitalization as one of their target among others.

Due to demonetization, people use digital transactions to a greater extent. There are also many online transaction apps that came after demonetization, and people use online payment methods to a greater extent. Also, there is pressure on the government and RBI to remove the service charge on credit and debit cards. According to the report of the State Bank of India, the share of Currency in Circulation (CIC) in the payment system was declining, as it was 88% in 2015-16, which came down to 20% in 2021-22 and was further estimated to go down to 11.5% in 2026-27. Whereas digital transactions are continuously increasing, in 2015-16, it was 11.26%, which is increased by 80.4% in 2021-22 and is expected to further increase to 88% in 2026-27. So we can see that this target of the government was successful.

Curbing counterfeit currency notes was the second main target, which became successful, although for a short period of time. But according to reports, the amount of fake currency

recovered during 2016 was much less than the amount recovered in next four years, which is 18.87 lakh pieces of fake currency notes. Counterfeit currency was the main source of terror funding, and due to demonetization, it had a large impact on terror funding. Defence Minister Manohar Parrikar announced that, the core of terror funding in the country had become weak. This decision hits the terrorist groups badly, but there is doubt whether it weakens the financing of the terrorist outfits in the long term. Also, it is impossible to replicate the new currency notes due to their security features.

By looking at all the reports and the above discussion, we can say that demonetization was partly successful and partly unsuccessful. One of its major failures was curbing black money, and its major success was making India digitalize. Also, people faced lots of problems due to demonetization.

CHAPTER 3:

IMPACT OF DEMONETIZATION ON

DIFFERENT SECTORS OF INDIAN

ECONOMY



On November 8, 2016, PM Modi announced demonetization, which withdraws the currency note of Rs.500 and 1000 from circulation. It constitute 86% of India's circulating cash, which hit the entire country within a day. Demonetization has affected Indian economy badly, as it has brought enormous changes into every sector of the economy. The 2016 demonetization had a greater impact on all sectors of the economy, while prior demonetizations that had taken place in 1946 and 1978 and the recent demonetization in 2023 did not affect much. Let us move on to find out what is the overall impact of the move on different sectors of Indian economy.

Banking Sector



Banks are the main part of the economy and also the center for exchanging legal tender money for the needs of society. Therefore, banks are the one that are more affected by demonetization and also face lots of challenges for a short period of time, but they are also the one that would be beneficial for the long term. There are both positive and negative impacts of demonetization on banks. Let us take a look at how each operation of the bank has been impacted :-

Positive Impact

❖ Increase in Deposits

Demonetization had increased the deposits in banks because the unaccounted money in the form of Rs.500 and Rs.1000 was streaming to the banks, due to which the size of the deposits had increased. Therefore, it helps the banks to grab the deposits and increase their deposits as the bulk of deposits that were mobilized by SBCs (Standard Character Banks) have been deployed in two ways: first, to reverse repos of various tenors with the RBI and second, for cash management bills (CBMs) issued under the Market Stabilization Scheme. Banks extended loans and advances, which was increased by Rs.1,008 billion. So the incremental credit deposit ratio for the period was just 18.2% but the commercial banks have deployed the additional deposits mobilized in liquid asset.

❖ Demand for Government Bonds

During post-demonetization period, deposits were gradually increased, so the banks started lending such a surplus value of money to the RBI under the reserve repo option. Because the stock market was in bad condition and government bonds acted as a safe for the investors. Many public sector banks also used this opportunity and deployed the excess cash of their banks in government bonds. So it will result in huge turnover for the banks, which is likely a 20-25% increase in their earnings and revenue (Jha, 2020).

❖ Increase in Bank Accounts

After demonetization, people started having bank accounts, as it was a government initiative to encourage people to have bank accounts. Many poor families and people

below the poverty line opened zero bank accounts, which helped them to connect with government initiatives and provide an avenue for the storage of money (Jha, 2020). Also, it impacted people's ability to execute transactions in banks.

❖ **Jan Dhan Account under PMJDY**

In post-demonetization period, 23.3 million new accounts were opened under the government scheme of Pradhan Mantri Jan Dhan Yojana (PMJDY). There has been a significant increase in deposits under PMJDY accounts, as 80% accounts were in the public sector and out of that urban areas has 53.6% and rural area has 46.4% accounts. The total balance in PMJDY deposits account is Rs.456 billion on 9 November 2016, which had increased to Rs.746 billion in December 2016 (K & S). Government also issued a warning against the misuse of such accounts because some people use them to convert black money into white money.

❖ **Digital Banking**

People started using digital payments and plastic money due to shortage of cash, which resulted in a significant increase in online banking platforms. There are electronic channels for transactions such as debit cards, credit cards, electronic clearing and payment systems such as Immediate Payment Service (IMPS), National Electronic Funds Transfer and Real Time Gross. Various online banking apps were launched such as Paytm, Aadhar Pay, Bharat Interface for Money (BHIM) and Phonepay. Therefore, the digital payment system steadily increased.

Negative Impact

❖ Fall in Cost of Funds

Increase in deposits led to keeping the majority of deposits in the form of cash deposits. In PSU banks, a greater amount of money was deposited with a major share of deposits of over 70% prompting them to lower the cost of funds. The surplus liquidity condition helps to transmit the monetary policy to market interest rates. After demonetization, several banks decreased their domestic term deposit rates and lending rates. SCBs medium term deposit rates have declined by 38bp in November 2016 – February 2017, whereas banks weighted average term deposit rates have declined by 24bp up to Jan 2017. Combining the sharp increase in low-cost CASA deposits led to a decrease in the overall cost of borrowings, which allowed the banks to reduce their lending rates (K & S).

❖ Liquidity Crunch

After the decision of demonetization, people faced lots of difficulties due to shortage of cash or even if they have, it was of no use because it has become demonetized. So people started exchanging their old currency with new one due to which they had to stand in front of banks in long queues for hours, which led to protests in the country. Also, it affected the entire demand-supply chain, as it was largely based on cash (Jha, 2020). Due to this, the prices of essential commodities like petrol and diesel increased and the small-time traders who did not have accounts with banks was affected the most. It also affected stock market, as it has dropped suddenly and big business corporations also lost their money.

❖ Sagginess in Lending

Banks growth in lending is less even after demonetization, which had an impact on growth in the amount of public deposits. For needy groups, banks tried to lend money at low interest rates, but after few a months it had shrink.

❖ **Decrease in Interest Rates**

Interest rates decreased because there was a surplus of cash reserves at the banks, which meant that the rates set by RBI, including CLR and CRR, was fulfilled and there was still money left with the banks. So the banks started giving out loans at a lower interest rate to the needy group, which resulted in an increase in the loan capacities of public and private sector banks. According to one of the studies, it had increased almost 20% (Jha, 2020). Also, there was no interest on surplus deposits as there was an increase of 3 lakh crore in the form of cash, which was reversed in banks, but for almost one month there was no interest.

❖ **Crippling in Rural Banking**

The impact of demonetization on rural banks was worst because public sector banks catered to rural banks. So the credit growth in these banks was falling severely, especially in rural areas, which are predominated by agriculture. In the year 2017, 6.1% fell (Jha, 2020).

❖ **Strain on Employees**

Bank employees suffered most due to the immense pressure, as they were working overtime for almost two months after demonetization. Which resulted in a number of problems in their lives.

❖ **Increase in Logistic Expenses**

The logistic expenses were increased, such as the transportation of vans, as during the period of demonetization there was need to move a huge amount of cash to the Reserve Bank of India, which was a main problem.

❖ **Losses to Banks**

Due to demonetization, consumers willingness to spend on high-value items such as cars and housing dropped suddenly, which caused banks high losses. Banks lost their revenue as there were no charges towards the ATMs, which caused banks to lose almost Rs.100 per day. Also, the merchant discount rate on credit and debit cards made a huge loss to banks with 1% in every transaction, as banks had done this to ease the pain of consumers.

Agricultural Sector



The agricultural value chain was badly affected by demonetization because cash is the primary mode of transaction in the agricultural sector, which contributes 15% of India's total output. November was a time of kharif harvest and the start of rabi sowing, and mainly due

to this, farmers were the one who were affected badly. Sales, transport, marketing and distribution of ready produce to wholesale centers or mandis, which were based on cash, were also affected. Let us divide the impact of demonetization on agriculture into two parts: short term and long term.

Short Term Impact

❖ Dropped in sales

With the occurrence of dumping, sales have dropped up to 25–50% across the market.

❖ Shortage of cash

Both selling kharif crops and sowing rabi crops need cash, and due to a shortage of cash, farmers were not able to buy seeds, fertilizers and farm products. Wages were not paid to farm labourers, due to which their work was postponed. Farmers who take out loans to buy raw materials for growing crops were worst affected. Also, the wheat seed of about 1.38 lakh quintals of National Seed Corporation was not sold due to a lack of cash.

❖ Barred from Exchange Deposit

Farmers from many parts of India, such as Punjab, Maharashtra, Uttar Pradesh, Odisha, Gujarat and Kerala, received significant formal financing from cooperative banks, and due to demonetization, they are barred from exchanging the old currency for new currency.

❖ Perishable farmers Affected Hard

Perishables like fruits, vegetables and flowers were badly affected, as they needed cash on a daily basis to purchase farm inputs (like pesticides and fertilizers) and hired

labourers to harvest the crops and transport them to urban centers. And due to lack of cash, the inputs used in farms decreased, which led to higher waste, lower yields, reduced sales and lower price realization. Also, the arrivals had reduces by 25 to 50 % but farm gate prices have not increased due to the lack of buyers because most of the produce is not reaching to the consumers (Sumathy & Savitha). They have suffered a loss of up to Rs.20000 to Rs.50000 per acre.

❖ **Lack of Banks and ATMs in APMC Markets**

More than 50% APMC markets in rural areas do not have banks and ATMs, and if the ATMs are there in markets, they are not working and some working ATMs do not have cash. So due to all this, farmers have to depend on money lenders and black money marketers for their transaction needs. Which resulted in farmers protests.

❖ **Less Bank Credit to Farmers**

A significant number of farmers depended on bank credit for the cash, but banks granted new loans to those who repaid their existing loans. Farmers were unable to avail the bank credit for agriculture, which is required for sowing because they didn't repay their existing loans due to the lack of cash and without their fault, they were deprived of the interest waiver scheme. Neither they are able to withdraw the required cash from their bank accounts nor do they ask for crop loans. The target for Rabi crop loan is Rs.18,000 crore but banks disbursed over Rs.1,500 crore in October, due to which not a significant amount was released as crop loan after demonetization.

❖ **Increase in Suicides**

Massive debts, very low price and burden created stress on farmers, which forced them to take the step of suicide.

❖ **Undue Advantage taken by Middlemen**

Most of the transactions are done on credit basis due to a lack of cash. So the input dealers such as seed, fertilizers and pesticide dealers took advantage of it and increased their prices by 20 -30% of the normal prices. Big traders and commission agents offered farmers higher interest credit than in normal conditions. Farmers who were not acquainted with cashless transactions were mostly affected by the cash crunch. Also, there is no buyer for farmers harvested crops in villages and in consumer markets the prices are high. Inventories of commodities are piling up at farmers fields because of lack of buyers in village markets to transport and sell them in urban markets.

❖ **Lack of PAN Card**

PAN card is necessary for the transactions above Rs.50,000. Only 20% of the population had PAN cards and penetration of PAN cards in rural area is less than this, which affected farmers badly as they were unable to transact through cash which they did earlier.

Long Term Impact

- ❖ With the recovery of black money, governments invested that money in agricultural infrastructure and also financed irrigation projects.

- ❖ Fall in rate of interest on loans in post-demonetization period, which depends on how much money government will recover.
- ❖ Farmers are updated with new technologies of payment like phonepay and paytm as well as the use of banking services more efficiently.
- ❖ In post-demonetization, the intermediaries was eliminated and direct contact with consumers and retailers was created.
- ❖ Credit facilities to farmers also increased because its main aim is to abolish black money.
- ❖ Also, it motivated the farmers to take out insurance and disaster relief cheques.

Tourism Sector



Tourism is most important as it helps in economic development and employment generation, especially in remote areas. Tourism is the largest industry in the world in terms of gross revenue and foreign exchange earnings and it is also the fastest growing industry in the world. India had the potential to become the largest foreign destination. In India, the season of tourism starts from October to January, which was affected by demonetization. The travel and hospitality industries are facing very tough time because they depend on cash

transactions. As people curtailed overseas travel and planned for various local tourist destinations due to the ban on currency because getting money from banks and ATMs made problems for them. But the impact was only short term and in long term it helps in the growth of tourism. Let us see how tourism was affected due to demonetization one by one:-

❖ **Inbound and Outbound Travel**

People who travelled to India faced lots of problems because cash was a better mode of transaction than cards for tourists. Due to lack of cash, the exchange of money becomes difficult. Using cards was not convenient for the travellers because of exorbitant transactional charges by their home banks, and e-cards were not activated for international transactions. Also, people who are travelling outside India face similar challenges due to currency exchange. In India, local people helped foreign tourists, as Indians believe in “Atithi Devo Bhava”.

❖ **Domestic Travel**

The people who are travelling within India faced problems due to issues with payment because there was a sudden demonetization of currency notes. Also, the hotels and restaurants were not accepting old currency notes and all ATMs hadn't been configured for new notes.

❖ **Traffic on Online Travel Websites was Decreasing**

Few days after the announcement of demonetization, visits to online travel agency websites were suddenly dropped, as people did not visit these websites due to the ban on notes. But it had affected temporarily only for short period of time.

❖ **Delay in Travel Plans**

Due to the liquidity crunch, people delayed their travel plans and before going to tour, they prioritized their bank work because government made a strict deadline on cash deposits and currency exchange. Even the wealthy and luxurious people delayed their plans. International tours and business trips that can be avoided were delayed and only the most unavoidable trips are being taken. The process of exchanging currencies was made Indian Nationals feel like foreigners in their own country.

❖ **Shift from International to Domestic Tourism**

Rich people shifting their functions to Indian states such as Goa instead of other foreign countries which clearly showed that the unavailability of money also trimmed their budgets. It led to a drastic transformation that turned from international tourism to domestic tourism.

❖ **Restaurant Reservation**

Demonetization had also affected restaurants, as many cancellations took place. Also, there was a severe drop in restaurant reservations such as Delhi NCR dropped by 28%, Mumbai dropped by 7% and Bengaluru dropped by 2%. All this affected the small-time hoteliers and restaurateurs (Musafir, 2016).

❖ **Airline Booking**

Due to demonetization, many travellers postponed or cancelled their plans, but in post-demonetization period, bookings steadily increased as there was more liquidity in the economy.

❖ **Decreased in Number of Visitors to National Monuments**

At historical monuments, the mode of transaction was cash which created problems for visitors visiting monuments of national significance. Even the foreigners faced problems in visiting this places.

❖ **Using of Digital Wallets by Small Vendors**

Small vendors use digital wallets because it is easy for them to accept money as there is no proper digital establishment. Also, it was the only ease of paying money through a phone number that has enabled the convenience.

❖ **Bullish in Travel Industry**

The impact of demonetization on tourism we discussed above was only for a short term and it became normal after some days. Also, the changes that came after demonetization like digital and plastic money help to make the transactions safer and build up a cleaner and safer India for travellers.

Healthcare Sector



Healthcare in India consists of both public and private hospitals. Government gives free treatment in public healthcare to Indian citizens. Despite this, 70% of the population accesses private hospitals due to many reasons like availability and the poor quality of healthcare in government hospitals. Public healthcare is usually funded by the state government and the federal government. Whereas private hospitals charges high prices for treatment. Demonetization had affected hospitals, but for first few days government took the initiative to avoid problems by allowing patients to use old currency at government hospitals and pharmacies. But after that, health services were not given to the patients with old currency. The situation was similar in private hospitals as well, as the majority of people seek medical care in private hospitals or clinics. Due to this, the tribal, rural and migrant populations were badly affected as they did not have plastic and digital money. Let us see how demonetization affected every function of healthcare system in the short and long term:-

Short Term Impact

❖ Practicing Doctors and Private Clinics

Doctors refused to accept old currency notes, which affected the people. The situation worsened in smaller towns and rural areas because even though they had enough money, they could not access medical care.

❖ Pharmacy Operation

Pharmacies did not accepted old currency notes, due to which people faced lots of problems as they could not purchase the medicines when they required them. And some pharmacies accepted old currency notes for an extra charge. Also, due to demonetization, some pharmacies stayed shut for a number of days. India is a country where a large number of population are patients who require frequent purchasing of medication. So, demonetization affected this population in the initial days.

❖ **Medical Tourism**

Demonetization also affected medical tourism. India is among the top three Asian countries for medical tourism because of its quality of healthcare, minimal cost of treatment and accessibility to many skilled doctors in different specializations. Many people from Bangladesh, Nepal, Middle East and African countries who came to India for healthcare were also affected by demonetization as they do not have Indian account to exchange the old currency. Neither the government nor the hospital helped them during this situation, except for some private hospitals that appealed to government to resolve this issue.

Long Term Impact

❖ **Linking Aadhaar Card with Healthcare System**

In post-demonetization, the Aadhar enables payment system was incorporated by the government, which made it easy for the people to make payments, as money could be sent through SMS. Also, apps based on third-party wallet payment systems were increased, which helped people with daily transactions. Linking health care delivery with biometric enabled aadhar card which help in long run, to create central database of patient's health. It will help to analyze the scenario and come up with strategy well ahead of time (Mishra, 2017).

❖ **Growth of India's Health Insurance Segment**

Health Insurance companies helped people the most during the liquidity crunch because this was the only option from where people could pay their bills and get their treatment without worrying about payment in cash if they had less cash. various

insurance companies also give offers to people which helped them during their medical treatment. Due to this, people started opting for best medical insurance policies.

❖ **Digital Transformation**

After demonetization, the healthcare sector is undergoing rapid digital transformation due to which unbiased claims data is seen as a forecasting tool that helps to prepare stakeholders for shifting market forces. The increase in insurance penetration in India also resulted in increased availability of claim data and Electronic Medical Records (EMR). All this data used as evidence in providing insights to develop better therapies.

Real-Estate Sector



The real-estate sector faced lots of obstacles due to demonetization. The demand for houses declined, as people did not spend much money during this period which also hit the regular sale of houses because there was a sudden stoppage in sales. But after demonetization, the demand for affordable houses such as flats had increased. Government also, introduced few

tax benefits. Black money holders invest their black money in real estate sector which is like a platform for them to convert black money into white money, which was also affected. The impact of demonetization on the real estate sector was varied in places in India. Let's discuss and analyze the impact of demonetization on the real-estate sector:-

❖ **Decrease in Property Registration**

Property registration has decreased by 40% due to which many developers put their projects on hold to prevent any risk and losses. Because it created a fear among the real estate developers.

❖ **Involvement of Black Money**

Many investors in real estate dealt with black money, which they invested in real estate. So these investors were eliminated from the market because the main aim of demonetization was to curb black money. Also, in the secondary sale market, real estate transaction took place through cash, which involved black money. So the decision of demonetization adversely affected the resale property market.

❖ **Decline in Prices of Luxury properties**

In the residential luxury segment, the major mode of transaction was cash. So the prices of luxurious properties declined by 20 to 30% due to demonetization, which opened the door for eager property buyers (Tata, 2023).

❖ **Tier 1, 2 and 3 Cities**

Real Estate segment in tier 1 cities was not affected because reputed and credible builders are running projects by using legal channels to fund their projects and home buyers were also using home loans and other financial channels in these cities.

Whereas in tier 2 and 3 cities, the mode of transaction was cash due to which the demand for housing was decline for the short term.

❖ **Transparency in Real Estate**

Post-demonetization witnessed several changes like establishment of RERA (Real Estate Regulation and Development Act 2016) and Benami Transactions Act due to which sector lost its taint and will became more transparent, which resulted in protection for buyers from delayed construction and handovers. Also, the real estate sector became more organized by curbing cash transaction.

Automobile Sector



In India, the trade was deep-rooted in hard cash which has come down slowly in many sectors due to the liquidity crunch and the automobile industry is one among them. Demonetization had badly affected automobile sector, as we saw December 2016 witnessed the biggest monthly fall after 16 years. Let us take a look at how demonetization impacted the automobile sector :-

❖ **Two wheelers**

Demonetization has affected the two-wheeler manufacturer. In villages where bikes or scooters were purchased with cash became completely idle after demonetization. The lack of cash or the limited amount of cash, many customers dropped their idea of purchasing and some were decided to wait. Due to which some producers stopped preparing their production for a few days to reduce inventory pressure and some delayed their production. To get some hikes, Suzuki Motorcycle India Private Limited (SMIPL) came up with cashless scheme.

❖ **Commercial Vehicles**

Commercial vehicles and transport industry was badly hit in November. As there was approximately 31% decline in tractors from October to November 2016 (Gupta, 2017). Also, the haulage trucks were affected. Second-hand truck sales were done through cash and due to lack of cash, there was a huge decline in the used truck market.

❖ **Private Cars**

Luxury cars and SUVs was affected, whereas the sale of small cars was not affected much as the transaction was made through bank financing or loans. Also, the organized used cars had minimal impact.

❖ **Unorganized Used Car Market**

Sale of unorganized used car market was affected due to demonetization. For about 4-5 months, it impacted the buying power because it was based on cash transactions.

Also, there was a delayed in buying cars due to which cars remain unsold which made them cheaper when these cars were carried forward for next year.

Micro, Small and Medium Enterprises (MSMEs) Sector



MSMEs play a vital role in India's economic development due to its vast network of over 63 million units, which provide 30% of contribution to India's GDP, 111 million to employment, 45% to manufacturing output and 40% to total exports. MSMEs are primarily based on cash, as income was based on their daily work which was affected by demonetization. SMEs were based on unsecured loans and due to lack of cash they were also affected. Let us discuss how demonetization affected MSMEs in detail:

- ❖ Micro enterprises were badly affected, as most of them are informal and unorganized and due to demonetization they closed their businesses.
- ❖ MSMEs witnessed two major shocks during that period: first was demonetization and second was introduction of GDP. Contractual labour suffered the most as payments from employers became constrained after demonetization and due to GDP compliance cost and other operating cost was increased. And due to this, most of the MSMEs was brought into the tax net, as over 60% of them were not ready for the new tax regime.

- ❖ Due to demonetization, the GDP growth moderation was estimated at 50bps at lower end, which rises to 300bps at the higher end.
- ❖ Lack of cash resulted in varying degrees of disruption in the supply chain of business of all sizes. As small enterprises didn't find the material they needed for their products in wholesale markets. Also, the small jobs that relied on cash were affected.
- ❖ Liquidity crunch forced many businesses to rely on working capital loans, but due to inundation of workload on banks they took a loan from informal channels, which made the flow of unaccounted money worse.
- ❖ Some segments, like essentials and agricultural machinery have low rate of tax and they dealt in white for a long time but due to lack of cash, they were affected severely. While some people who preferred to deal in cash to avoid taxes were also affected.
- ❖ As people were standing in queues outside the banks for a long time to exchange money day after day due to which the execution in businesses became difficult and orders remained pending.
- ❖ Organized MSMEs were not affected much as their bulk and regular purchases were mostly in the form of formal banking systems.
- ❖ In small businesses, most of the labourers were migrant people, who were migrated from another state and due to this the ID they had was not valid in the state in which they worked or some did not have proper IDs, which forced them out. This hurts business continuity and also increases hiring and training costs.

Educational Sector



Demonetization also impacted the educational sector, as the donations given to private schools were mainly had some component of black money. So after demonetization, it was affected. But educational sector had a positive impact of demonetization, as it brought more cheers than boos. Also, it paved the way for many reforms and brighter future for Indian students. Let us look at the impact of demonetization on educational system.

❖ Private Institutions

In private institutions, the admission fees are high and people gave donations in the name of charity or development and capitations fees. It is known that these institutions receive higher admission charges and donations in black money with no receipts against it. Also, the black money holders gave donations in this institutions. So with the decision of demonetization, both this practices were discouraged, Which brought transparency and sanity in the operation of institutions and decreased the cost of education.

❖ **Government Institutions**

The impact of black money on private institutions gives opportunity to government institutions to attract the people. And if the government institutions improve their quality of education and utilize the funds that are given to them in better ways, then they can be more advantageous than private institutions.

❖ **Overseas Education and Loans**

The ratio of students opting for education overseas had declined because the students who got admission on the power of money in overseas educational institutions were affected as it involved a component of black money. But due to the lower interest rates, the deserving students can go forward and get admission overseas as they were unable to pursue their dreams due to lack of fund earlier.

❖ **Emergence of New work streams**

As the one of the aim of demonetization was cashless society and due to this, many new employment avenues has emerged. Professionals who play a role in cashless economy like payment gateways, application designers, security professionals, POS machine seller, operator, mechanics, etc were high in demand.

❖ **Multiple Ways to Support Tuition Fees**

After demonetization, many students and their parents started exploring many ways to finance their studies, where they found post education payment option. This option was similar to an education loan. During this period, banks also lowered the rates of interest which continue for two years after demonetization.

❖ **Importance of Scholarship**

Many students were unable to pay their fees as they do not have cash and due to this, they opted for scholarships and started giving importance to them.

❖ **Increase or expand in Educational Institutions**

Real estate has been badly affected by demonetization, due to which it became more affordable. So the investors started building new schools or expanding existing schools.

❖ **Rise in Internationally Collaborated Schools**

Due to demonetization and deficit inflow of Indian currency, NRI's and International Organizations started collaborating with Indian schools. As more money started flowing into the Indian economy, which shows a good sign for Indian economy.

❖ **Online Payments became Mandatory**

In post-demonetization, all the educational institutions made an online system of payment, which helped them to increase transparency in the institutions.

Difference between 2016 and 2023 Demonetization in India

On 19th May 2023, Reserve Bank of India withdrawn the high-value currency note of Rs.2000 from circulation under Clean Note Policy, which was introduced in November 2016. But it was not like 2016, when government demonetize Rs.500 and 1000 and did not give much time to exchange the old currency for a new one. At this time, the demonetized note

will continue to be legal tender even after deposit, as the RBI has given four month to exchange or deposit Rs.2000 in banks till 30th September 2023. So within the given time, people can deposit or exchange the high-value currency notes for lower denominations up to Rs.20,000 at a time. The central bank stopped the printing of Rs.2000 notes in 2018-19 but decided to pull out in circulation in 2023. So let us discuss differences among the demonetizations which take place in 2016 and 2023.

Difference between 2016 and 2023 Demonetization

- ❖ In 2016, PM Modi made an announcement on television which focusing on political will, but 2023 demonetization was declared through RBI circular which suggested both political and economic will.
- ❖ In 2016, the demonetized notes of Rs.500 and 1000 were comprised of 86% of money in circulation, which removed a large portion of cash from the public but in 2023, the demonetized notes of Rs.2000 were comprised of only 10.8% in circulation, which did not affect much to public.
- ❖ At the time of 2016 demonetization, government declared that the major aim of this decision was to curb black money but this time government did not declares any such intention.
- ❖ There was no panic among the citizens as they did not face problems that they faced during 2016, as the Rs.2000 notes were low in economy and the time given to exchange old currency was much more compared to time given in 2016.
- ❖ People had to wait in queues outside the banks for a long time in 2016 for exchanging old currency with new one but at this time the situation was much better.

- ❖ The 2016 decision led to liquidity crunch and boosted the rise of digital payment system which is not there in 2023.
- ❖ Unlike 2016, there is no restriction in 2023 to deposit old currency notes in accounts and also business correspondents was permitted by RBI to exchange the old currency notes of Rs.2000 for the account holder with a limit of up to Rs.4000 per day.
- ❖ At the time of 2016 demonetization, Rs.500 and 100 was demonetized because higher value notes was involved in black marketing whereas in 2023, Rs.2000 was demonetized because it was in an anomaly in the government's logic of eradicating black money.

CHAPTER 4:

DATA ANALYSIS

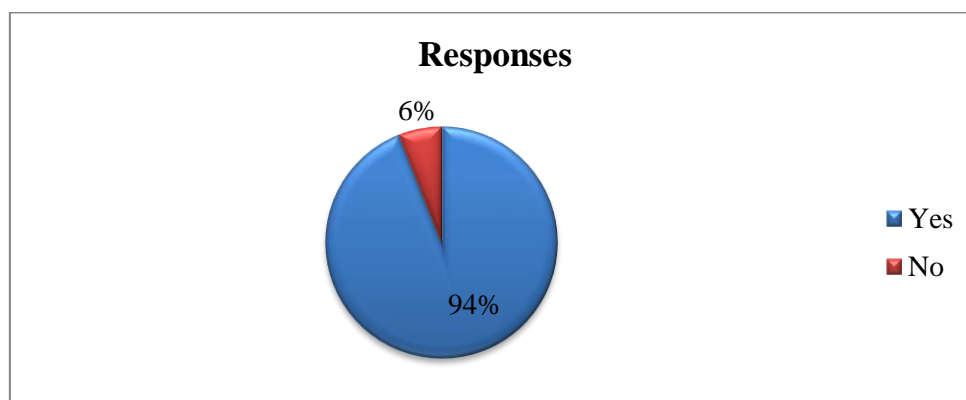
(PEOPLE'S PERSPECTIVE)

This chapter is based in primary data collected through questionnaire. In order to get the idea about the perspective of people a questionnaire was prepared consisting of sixteen questions and fifty respondent responded to it. Respondents were from Ponda taluka and from different backgrounds.

Following are the responses from the respondent of Ponda taluka.

1) Do you know about 2016 demonetization?

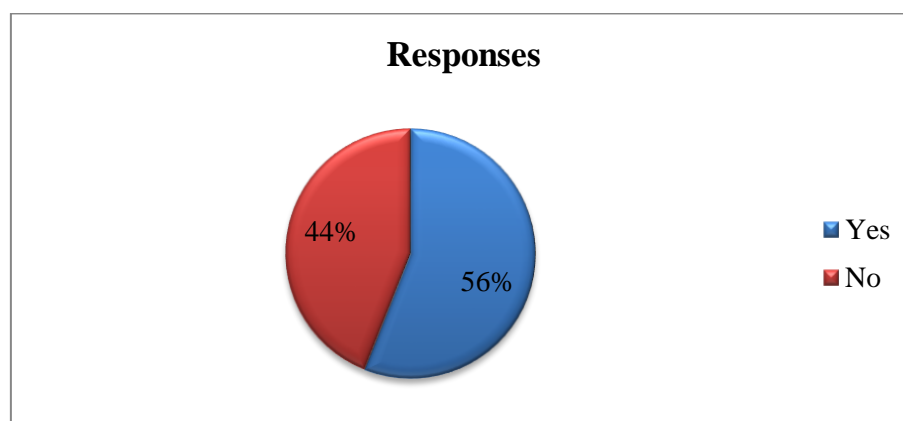
Options	No. of Responses	In %
Yes	47	94%
No	3	6%



Through the responses of this question we can interpret that majority of the people i.e 94% know about the government decision of demonetization whereas 6% of people don't know about this decision of government.

2) Did it affect you or your family?

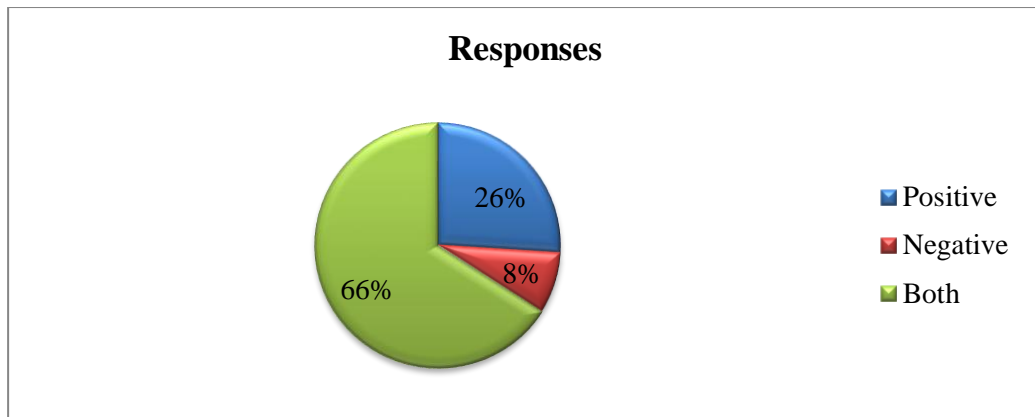
Options	No. of Responses	In %
Yes	28	56%
No	22	44%



Through this question we can understand that demonetization affect most of the people i.e 56% of people affected due to demonetization whereas 44% of people were not affected by this decision of government.

3) Is there a positive or negative impact of demonetization on economy?

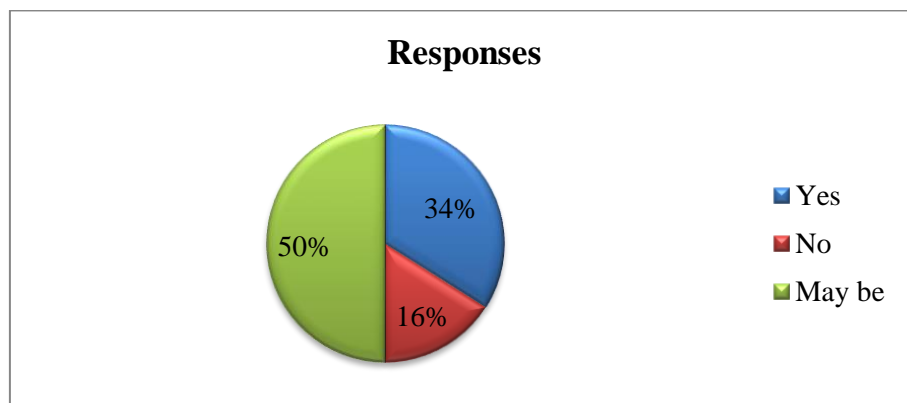
Options	No. of Responses	In %
Positive	13	26%
Negative	4	8%
Both	33	66%



Through the responses of this question we can interpret that majority of the respondent i.e 66% people believe that the impact of demonetization on Indian economy is both positive and negative. Whereas 26% people believe that there is positive impact and 8% people said there is negative impact.

4) Did it reduce the corruption in India?

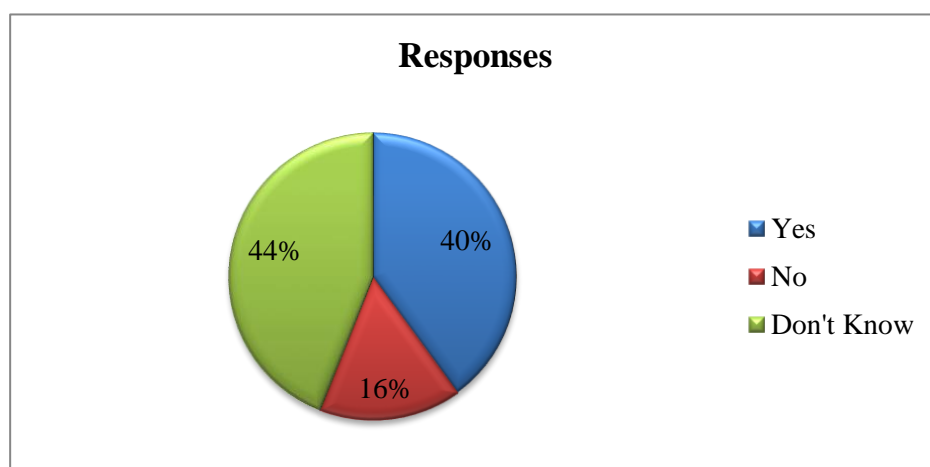
Options	No. of Responses	In %
Yes	17	34%
No	8	16%
May be	25	50%



Through the responses of this question we can interpret that 50% of people believe that demonetization helped to reduce corruption whereas 34% said maybe it reduced corruption. But 16% of people said demonetization do not help to reduce corruption in India.

5) Do you think that government had taken this decision of demonetization for their benefit?

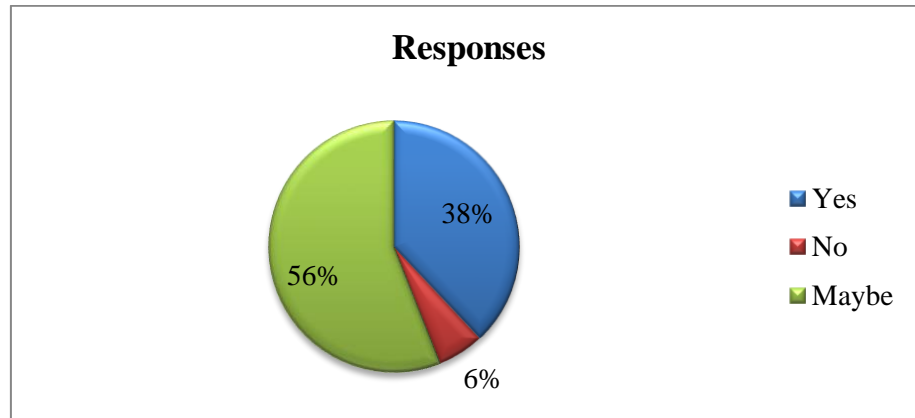
Options	No. of Responses	In %
Yes	20	40%
No	8	16%
Don't Know	22	44%



Through this responses we can understand that 44% people do not have any idea about whether the government had taken this decision for their benefit or not. 40% of people believe that government had taken this decision for their benefit whereas 16% people were not believe this.

6) Does demonetization help to stabilize the economy?

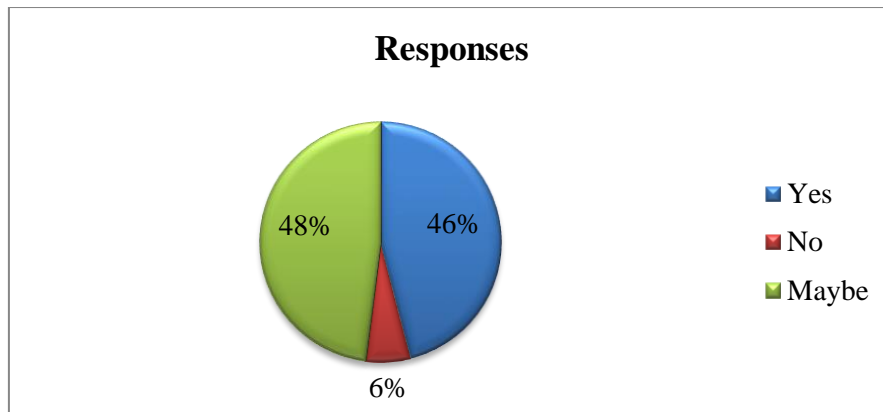
Options	No. of Responses	In %
Yes	19	38%
No	3	6%
May be	28	56%



Through the responses of this question we can interpret that majority of the people i.e 56% of people believe that it maybe help to stabilize the economy whereas 38% people believe that this decision help to stabilize economy. But very few people of 6% believe that it do not help in stabilizing economy.

7) Could it have been implemented in better ways?

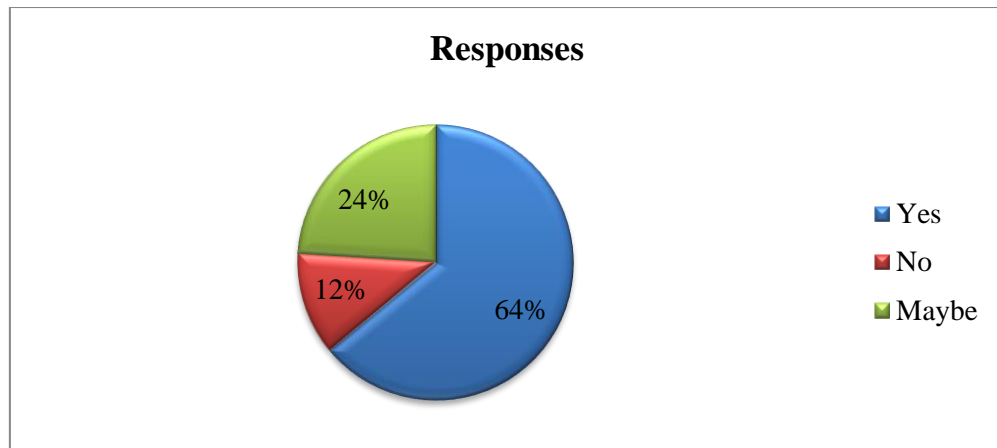
Options	No. of Response	In %
Yes	23	46%
No	3	6%
Maybe	24	48%



Through this question we understand that similar percentage of people said that demonetization may be implemented in better ways and some said there are other ways to implement demonetization. Whereas very few people said there is no other better way to implement this decision.

8) Did the government of India take right step to curb black money from the nation?

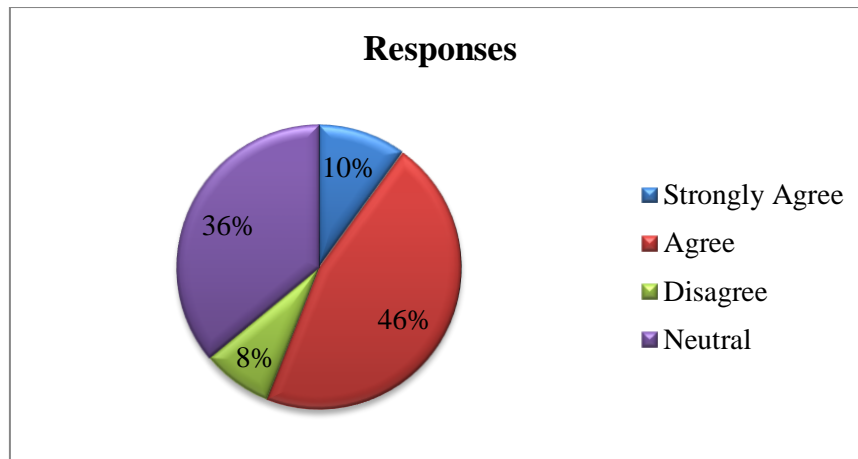
Options	No. of Responses	In %
Yes	32	64%
No	6	12%
Maybe	12	24%



Through the responses of this question we can interpret that majority of the people i.e 64% of people believe that Indian government had taken right step to curb black money from the nation whereas 24% people believe may be it is the right step of government. But 12% people believe that this is not the right step.

9) Do you agree that the demonetization aims at promoting digitalization of payments?

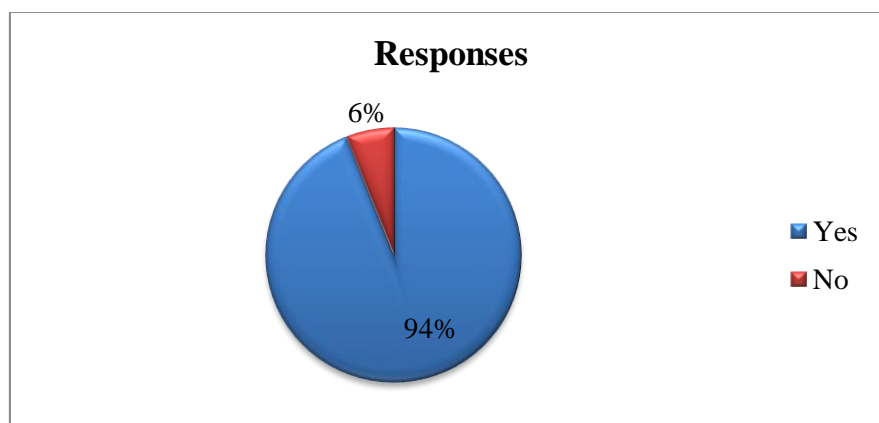
Options	No. of Responses	In %
Strongly Agree	5	10%
Agree	23	46%
Disagree	4	8%
Neutral	18	36%



Through this responses, we can interpret that majority of the people feels neutral whereas 46% of people agree that it promotes digitalization and 10 % people strongly agree upon it.

10) Do you support digitalize India?

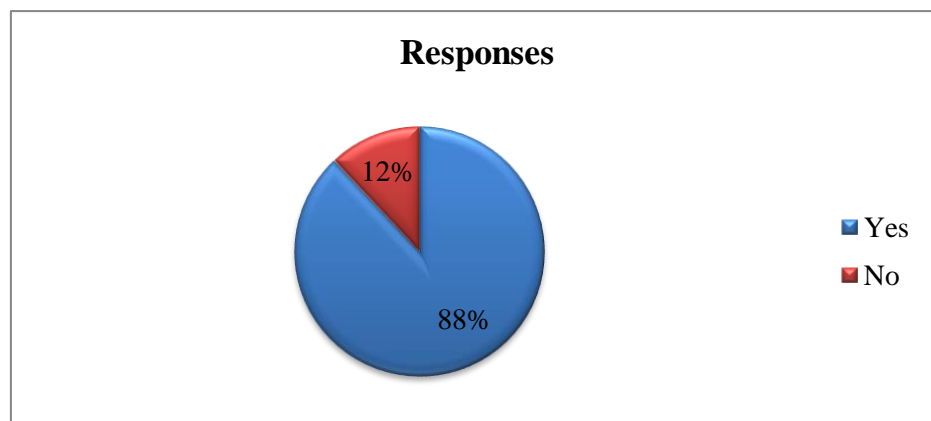
Options	No. of Responses	In %
Yes	47	94%
No	3	6%



Through this responses we can interpret that majority of 96% of people support digitalize India whereas only 6% of people do not support digitalize India.

11) Do you use digital payment system?

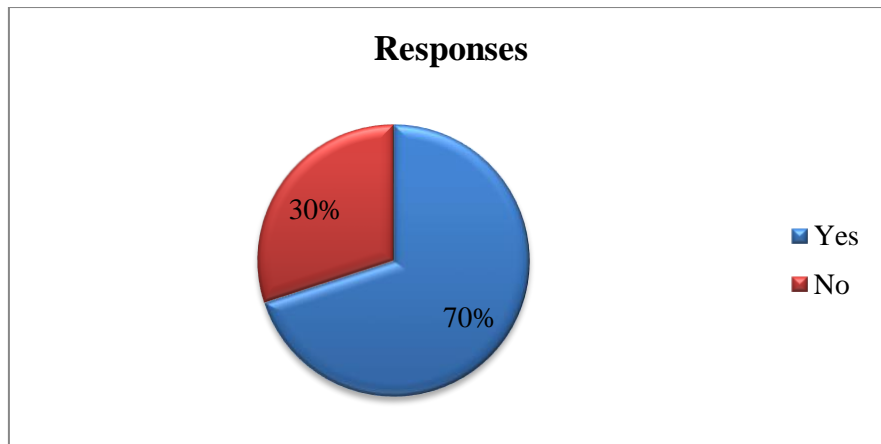
Options	No. of Responses	In %
Yes	44	88%
No	6	12%



Through these responses we can interpret that majority of the people uses digital payment system whereas only few people were not using it. From this question we can understand that the aim of government to make digital India was successful as most of the people use digital payment system after demonetization.

12) Is 2023 demonetization is better than 2016 demonetization?

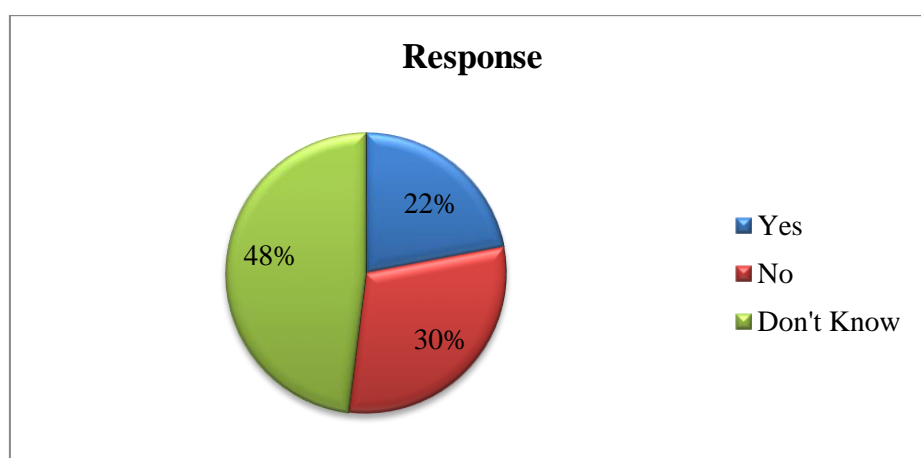
Options	No. of Responses	In %
Yes	35	70%
No	15	30%



Through these question we can understand that majority of people i.e 70% were believe that 2023 election is better than 2026 election while 30% of people were not believing it.

13) Do you think that 2023 demonetization is related to elections?

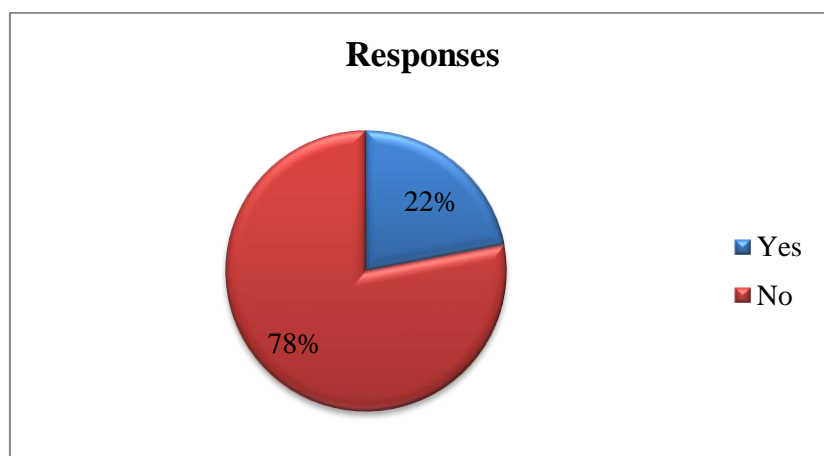
Options	No. of Responses	In %
Yes	11	22%
No	15	30%
Don't Know	24	48%



Through these responses we can interpret that most of the people i.e 48% do not know whether 2023 election is related to government or not. Whereas 30% of people said that there is no relation between 2023 election and demonetization and only 22% said that 2023 demonetization is related to election.

14) Do you think that there are alternative way of curbing black money from the system?

Options	No. of Responses	In %
Yes	11	22%
No	39	78%



Through these question we can understand that majority of people believe that there is no other alternative way to curb black money from the system while only 22% of people believe that there is other alternative way to curb black money from the system.

15) If yes than what?

For these question people expresses their views as what should be the other alternative way to curb black money from the system. Following are the views of the people :-

- Using digital payment system and make sure everyone pays their fair share of taxes fair.
- By stopping illegal activities in India.
- Black list state bank of India.
- Having strict laws.
- There should be proper transparency and accountability. There should be more awareness on the ground stages such as availability of RTI act and its functions and effectiveness.

16) Whether you want to say any additional on the issue of demonetization?

People comments on the issue of demonetization, so let us see what was this comments:-

- It affected middle class and poor people very badly.
- Digitalisation got a massive boost with this move but at the same time it also has both advantages and disadvantages.
- Demonetization had affected poor people a lot. Rich and privileged class didn't face much problems but poor people including middle class suffered a lot. Hoping not to see demonetization again in future.
- Digital payment system is very convenient.
- Demonetization bring stability to a country's currency.
- Even today, a vast majority of our Indians are not digitally enabled and our financial inclusion program need to be further enhanced.

- It only helped the top level people and there is no benefit to middle class and poor people.
- Demonetization was not bad as such.
- Demonetization could have been better planned by government.
- The number of fake currencies which was circulating in India should be stopped during the demonetization.
- Good step for curbing corruption.
- It's government decision and we just can watch on it.
- Demonetization was a good step taken by the government to curb corruption but unfortunately it was not successful because institutions at lower levels like bank did not cooperate with government. But one good thing about demonetization is that it helped in making digital India.
- Although it affected us in the beginning but it is surely going to give results in the long run and government need to do demonetization once in ten years.
- Government had taken good step but the time given to people to exchange money was very short.
- Demonetization affected more to lower and middle class people.

CHAPTER 5:
CONCLUSION

Demonetization is the act of withdrawing the legal tender rights of denomination of currency. It was a bold step which was taken by the government of India to deal with unaccounted money and corruption. The main aim of demonetization is to curb black money, counterfeit currency and eliminate the corruption in India. There are other reasons also such as controlling terrorism, interest rates and inflation, expanding fiscal space and promoting digital transaction. But there are also political reasons behind the decision of demonetization. As the main issue was to fulfill the promise which was made by BJP government to the public during the time of election. Due to which they do not think about the problems which will be faced in future. Demonetization which takes place earlier in the year 1946 and 1978 had both the reasons i.e political and economic one but at this time politics was the main reason behind demonetization. Demonetization is an instrument to fight against corruption and brought new changes in the economy. This decision also helps India to become digitalize. General public faced lots of problems due to this decision as there was very short time given to people to exchange the old currency with new one. And also there was a shortage of cash due to which they have to wait for a long time in front of banks in a long queue to exchange their currency. Several businesses was disrupted as there was liquidity crunch, which affected both consumers and owners. Most of the countries tried demonetization but it was not successful all the time.

Demonetization affected every sector of the economy both positively and negatively whether it was small or big. Some sectors had long term impact while others have short term impact. Banks are the one who were affected most as it was the centre for exchanging money and also the main part of the economy. Farmers were also worst affected, as cash was their daily mode of transaction and due to the shortage of cash they suffered a lot. Besides, this other sectors like health, education, real estate, automobile and MSMEs was also affected. There was a major difference between 2016 and 2023 demonetization, as 2023 demonetization was

much better than 2016 demonetization. As there was no panic among the people because time given to exchange money was good enough and also there was not restrictions on deposition of money.

Finally we may conclude that demonetization is a best device to tackle all the situations like black money, counterfeit currency, hyperinflation, corruption etc. It was a one time event and will not have much long term impact although it had worst short term impact.

Major Findings

For the paper, data was collected from both primary and secondary sources. Under primary sources, a survey was conducted whereas for secondary sources, data was collected from multiple websites, articles and journals.

The findings of primary data were as follows:

In the view of respondent, it is learnt that demonetization helps to make India digitalize, as majority of the people using digital payment system after demonetization.

Respondent agree that 2023 demonetization was much better than 2016 demonetization.

It is seen that demonetization was not only device to clean economy but there are other alternatives also.

The finding of secondary data were as follows:

The major reason behind demonetization was to fulfil the promise made by BJP to the people. Demonetization had affected every sector of the economy. Banks, agriculture sector, MSMEs and health sector are the worst hit by demonetization. This decision had both long term and short term impact but we cannot precisely conclude whether it was a success or failure.

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APPENDIX

Questionnaire

I, Sakshi G Naik student of Goa University pursuing my MA in Political Science. I am conducting a research study on the topic “Demonetization and Its Impact: Political and Economic Perspective” as a part of academic curriculum. I would appreciate your assistance in filling up the attached questionnaire. Your participation is most valued but it is voluntary. It is entirely up to you to answer or not to answer any question that has been asked. I assure you that the data collected during this study will be kept confidential and used solely for educational and academic purpose.

1. Do you know about 2016 demonetization?
☐ Yes
☐ No
2. Did it affect you or your family?
☐ Yes
☐ No
3. Is there a positive or negative impact of demonetization on economy?
☐ Positive
☐ Negative
☐ Both
4. Did it reduce the corruption in India?
☐ Yes
☐ No
☐ Maybe
5. Do you think that government had taken this decision of demonetization for their benefit?
☐ Yes
☐ No
☐ Don't know
6. Does demonetization help to stabilize the economy?
☐ Yes
☐ No
☐ Maybe
7. Could it have been implemented in better ways?
☐ Yes
☐ No

- ☐ Maybe
8. Did the government of India take right step to curb black money from the nation?
- ☐ Yes
- ☐ No
- ☐ Maybe
9. Do you agree that the demonetization aims at promoting digitalization of payments?
- ☐ Strongly agree
- ☐ Agree
- ☐ Disagree
- ☐ Neutral
10. Do you support digitalize India?
- ☐ Yes
- ☐ No
11. Do you use digital payment system?
- ☐ Yes
- ☐ No
12. Is 2023 demonetization is better then 2016 demonetization?
- ☐ Yes
- ☐ No
13. Do you think that 2023 demonetization is related to elections?
- ☐ Yes
- ☐ No
- ☐ Don't know
14. Do you think that there are alternative way of curbing black money from the system?
- If yes then what?
- ☐ Yes
- ☐ No
- ☐ Don't know
15. If yes then what?

16. Whether you want to say any additional on the issue of demonetization?
