Abstract
The term demonetization is not new to the Indian economy. The highest denomination note ever printed by the Reserve Bank of India was the Rs 10,000 note in 1938 and again in 1954. But these notes were demonetized in January 1946 and again in January 1978, according to RBI data. On 8 Nov. 2016, the currency is demonetized third time by the present Modi government. This is the bold step taken by the govt. for the betterment of the economy and country. The move was targeted towards tackling black money, corruption and terrorism. In this paper, we will study about the meaning of denomination and history of denomination in India. Further the paper will focus on the effects of demonetization on different sector of Indian economy in detail.

I. INTRODUCTION
Demonetization is a process by which a series of currency will not be legal tender. The series of currency will not acceptable as valid currency. The same thing happens with the Rs. 500 and Rs. 1000 note demonetization. The Indian rupee (INR) is the official currency of India. on November 8, when the whole world was waiting for the outcome of US presidential elections, Prime Minister Narendra Modi came out with his master stroke on corruption, counterfeit currency, terrorism and black money by announcing demonetization and ceasing Rs 500 and Rs. 1000 notes as a part of legal tender in India. The Reserve Bank of India manages currency in India and derives its role in currency management on the basis of the Reserve Bank of India Act, 1934 and a new redesigned series of Rs 500 banknote, in addition to a new denomination of Rs 2000 banknote is in circulation since November 10, 2016. The new redesigned series is also expected to be introduced to the banknote denominations of Rs 1000, Rs 100 and Rs 50 in the coming months.

The reasons offered for demonetisation are two-fold: one, to control counterfeit notes that could be contributing to terrorism, in other words a national security concern and second, to undermine or eliminate the “black economy”.

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II. OBJECTIVES
The main objective of this paper is to study the impact of recent demonetization done by the present government on Indian economy and system.

III. RESEARCH METHODOLOGY
This paper is based on the secondary data and information which has been collected from various published sources like government publications, reports, magazines, journals, newspapers etc. Research is descriptive in nature.

IV. DEMONETIZATION: HISTORY AND BACKGROUND
The French were the first to use the word Demonetize, in the years between 1850 -1855. Since then many countries have used the word and the policy with immense restriction and discomfort, for it disrupts economics and population at large. The sudden move to demonetize Rs 500 and Rs 1,000 currency notes is not new. Rs 1,000 and higher denomination notes were first demonetized in January 1946 and again in 1978. The highest denomination note ever printed by the Reserve Bank of India was the Rs 10,000 note in 1938 and again in 1954. But these notes were demonetized in January 1946 and again in January 1978, according to RBI data. Rs 1,000 and Rs 10,000 bank notes were in circulation prior to January 1946. Higher denomination banknotes of Rs 1,000, Rs 5,000 and Rs 10,000 were reintroduced in 1954 and all of them were demonetized in January 1978. The Rs 1,000 note made a comeback in November 2000. Rs 500 note came into circulation in October 1987. The move was then justified as attempt to contain the volume of banknotes in circulation due to inflation. However, this is the first time that Rs 2,000 currency note is being introduced. While announcing currently circulated Rs 500 and Rs 1,000 notes as invalid from midnight 8 Nov, Prime Minister Narendra Modi said new Rs 500 note and a Rs. 2,000 denomination banknote will be introduced from November 10. Bank notes in Ashoka Pillar watermark series in Rs 10 denomination were issued between 1967 and 1992, Rs 20 in 1972 and 1975, Rs 50 in 1975 and 1981 and Rs 100 between 1967-1979. The banknotes issued during this period contained the symbols representing science and technology, progress and orientation to Indian art forms. In the year 1980, the legend Satyameva Jayate — ‘truth alone shall prevail’ — was incorporated under the national emblem for the first time. In October 1987, Rs 500 banknote was introduced with the portrait of Mahatma Gandhi and Ashoka Pillar watermark. Mahatma Gandhi (MG) series banknotes – 1996 were issued in the denominations of Rs 5, (introduced in November 2001), Rs 10 (June 1996), Rs 20 (August 2001), Rs 50 (March 1997), Rs 100 (June 1996), Rs 500 (October 1997) and Rs 1,000 (November 2000). The Mahatma Gandhi Series – 2005 bank notes were issued in the denomination of Rs 10, Rs 20, Rs 50, Rs 100, Rs 500 and Rs 1,000 and contained some additional/new security features as compared to the 1996 MG series. The Rs 50 and Rs 100 banknotes were issued in August 2005, followed by Rs 500 and Rs 1,000 denominations in October 2005 and Rs 10 and Rs 20 in April 2006 and August 2006, respectively.
V. IMPACT OF DEMONETIZATION

The term demonetization is not new to the Indian economy. The highest denomination note ever printed by the Reserve Bank of India was the Rs 10,000 note in 1938 and again in 1954. But these notes were demonetized in January 1946 and again in January 1978, according to RBI data. Since less than 5 percent of population in India had access to such notes and most banks never had such currency notes, demonetization did not have a big impact on the country. The decision was taken to curb the illegal use of high denomination currency which was used for corrupt deals in the country. However, with the latest round of demonetization, the common public and bankers are undoubtedly facing hardship since more than 85 percent of currency in circulation has been rendered illegal in one single stroke. Demonetization is surely hampering the current economy and will continue to do so in the near term and will also impact India’s growth for the coming two quarters but will have positive long lasting effects.

| Notes in circulation (value in INR billion) | 7854 | 6326 | 14180 |
| Notes with banks together with other govt. agencies @ 30% | 2356 | 1898 | 4254 |
| Notes with public @70% | 5498 | 4428 | 9926 |
| Conversion by public for new notes with old (%) | 60 | 40 | ---- |
| Total value of converted by public (INR billion) | 3299 | 2657 | 5070 |

Scenario 1: Total value not converted by public @50%(INR billion) | 2199 | 1771 | 4856 |

Scenario 2: Total value not covered by public @50% of 20% of black money (INR billion) | 4520 |

Scenario 3: Replicating 1978, with 25% not coming back | 1374 | 1107 | 2482 |

5.1 POSITIVE EFFECTS

- **Improvement in Government’s fiscal position:**

  The implication for the fiscal deficit is a clear positive, as the government could gain windfall assuming large number of unaccounted currency does not make its way back into the banking system. Also, incrementally we might see tax reporting discipline and hence the increase in tax collection through better reporting and audit. Once cash holdings are deposited into the banks to exchange new currencies, understating true income for tax purposes will be very difficult. This may potentially lead to better compliance, thereby increasing the tax base and revenues of the government.

- **Attack on Black Money Holders:**

  By demonetization, Black money will be taken out of Indian system. As predicted by ICICI Securities Primary Dealership the government's plan to remove INR 500 and INR 1,000 notes from circulation will disclose up to INR 4.6 lakh crore in black money. Corruption will also be automatically reduced by removing black money from economy. People who possess huge amounts of black money in hard cash are at a complete loss now. Their black money in hard cash is now a pile of trash. Now If a Black money holder Want to Deposit Money in Bank Account Than he/she Has to Show ID. There Will Be 200 % Penalty on Income tax Amount.
Anuradha Bhatnagar :: Demonetization and Its Impacts in India

- **Death Knell to Fake Currency Rackets:**
  Most of the fake currencies used to be in the denominations of Rs. 500 and Rs. 1000. By banning Rs. 500 and Rs. 1000 notes, Modi ji has busted all these unethical rackets completely.

- **End of Terrorist Funding:**
  Huge sums of money especially in hard cash in the denominations of Rs. 500 and Rs. 1000 was used to fund Islamic terrorists, Naxalites and other non-state actors. Now, these Organizations will suffer from shortage of funds. Most of These terrorist, Maoist Organization used these funds for buying arms and weapons. Buying arms is an extremely difficult task now after this ban.

- **Positive Impact on Markets:**
  We believe government’s move to demonetize higher denomination currency would have a far-reaching impact on Indian economy. It might have short-term pain but sure long-term gains. Apart from flushing liquidity in the banking system, demonetization could create short-term disruption in consumption and lead to behavioral changes in household’s saving and consumption demand. There will be positive move in markets in long run that could bring confidence of overseas investors in Indian stock markets. Market goes a bit down in the short and medium term. India is still a very attractive destination on a long-term basis. It is not the best market in the next three months.

- **End of Huge Donations:**
  Huge amounts of donation that is taken in the private education and healthcare sectors would be stopped. Schools, engineering and medical colleges and hospitals (private ones) used to take huge amounts of money as donations especially in the form of hard cash in the denominations of Rs. 500 and Rs. 1000. These money-minded people running these institutions won’t be able to make any easy money now. Same applies to the real estate sector.

- **Towards A Cashless Economy:**
  While it is practically impossible to have a 100% cashless economy, the proportion of hard cash in the economy will decrease and our economy will get more digitized. This will result in greater transparency. Now government has put Some limitation for Cash Withdraw from bank Accounts. People Will go for online payments, They Will Use PayTM or other Online Payment Companies for Buying goods or Making payments.

- **Hawala Transactions End:**
  Most Hawala transactions used to be carried out in the denominations of Rs. 500 and Rs. 1000. With this ban, Modiji has delivered a fatal blow to the unethical Hawala traders as they can’t trade anymore using denominations of Rs. 500 and Rs. 1000.

- **Funding:**
  Funding for smuggling and terrorism will take a blow since all the money will get back to bank and from there it is easy to identify the fake currency. Demonetization thus affects the funding of terror networks in Jammu and Kashmir, North-eastern states and the other areas.

- **Real estate:**
Another impact of the demonetization would be reduction in cash transactions in real estate. This is likely to reduce to real estate prices and make it affordable. In the short term, prices of real estate would come down for the same reason above. There will be fewer suitcases moving.

- **Elections:**
  Demonetization has shocked political parties. Many states like Punjab and Uttar Pradesh cash donations are a huge part of "election management”. Political parties will find themselves helpless as cash hoards are often undeclared money. So, upcoming elections 2017 will be transparent to some extent.

- **Gold/Silver and Jewellery:**
  After demonetization, the demand for gold and other precious metals rise greatly because people are trying to invest their black money in gold to make it white in short period. But demand for gems and jewellery to decline in the next two to three quarters.

- **Digital payments:**
  People adopting online payments system such as Paytm etc. after ban for high denomination currency in India. Digital transaction systems, E wallets and apps, online transactions using E banking, usage of Plastic money (Debit and Credit Cards), etc. will definitely see substantial increases in demand. This behavioral change could be a game changer for India in the near future.

- **Fake Currency:**
  The impact on the fake currency would be more significant. Many dealers with the existing counterfeit notes would be trapped as they would have to take the notes to the bank and have better chances of getting their racket exposed. Thus, they have only option to destroy their notes and incur losses.

- **Decrease in Interest Rates:**
  We will see lowering interest rates for education loans, home loans and medical loans very soon. It will make higher education and medical facilities more accessible. This change is hard to undo because if any subsequent government increases loan it will suffer huge backlash.

- **Inflation expected to fall further:**
  The move is likely to have a strong disinflationary impulse. The real estate sector, where a sizable proportion of transactions were conducted in cash (and often with black money), will be the worst affected followed by an expected slowdown in consumption demand. In our CPI forecast, we have assumed in housing inflation as well as slowdown in consumption demand, which has the potential to reduce CPI inflation average to 4.3% - 4.6%, from our current forecast of 4.8%.

### 5.2 NEGATIVE EFFECTS

- **Cash shortage:**
  The scarcity of cash due to demonetization led to chaos, and most people holding old bank notes faced difficulties exchanging them due to endless lines outside banks and ATMs across India, which became a daily routine for millions of people waiting to deposit or
exchange the ₹500 and ₹1000 bank notes since 9th November. ATMs were running out of cash after a few hours of being functional, and around half the ATMs in the country were non-functional. Sporadic violence was reported in New Delhi, but there were no reports of any grievous injury, people attacked bank premises and ATMs and a ration shop was looted in Madhya Pradesh after the shop owner refused to accept ₹500 bank notes. The CMD of Punjab National Bank said that panic after demonetization started fading on 19 November 2016. As of 18 December 2016, there were still on long queues at banks and ATMs.

- **Deaths:**
  Several people were reported to have died from standing in queues for hours to exchange their old banknotes. Deaths were also attributed to lack of medical help due to refusal of old bank notes by hospitals. As of 15 November 2016, the attributed death toll was 25 and 33 deaths as of 18 November. In an interview, Chief Minister of Delhi Arvind Kejriwal lashed out at a BBC reporter who asked him to justify his 19 November claim that 55 deaths were linked to demonetization the end of the year, opposition leaders claimed that over 100 people had died due to demonetization.

- **Stock market crash:**
  As a combined effect of demonetization and US presidential election, the stock market indices dropped to an around six-month low in the week following the announcement. The day after the demonetization announcements SENSEX crashed nearly 1,689 points and NIFTY 50 plunged by over 541 points. By the end of the intraday trading section on 15 November 2016, the BSE SENSEX index was lower by 565 points and the NIFTY 50 index was below 8100 intraday.

- **Transportation halts:**
  After the demonetization was announced, about 800,000 truck drivers were affected with scarcity of cash, with around 400,000 trucks stranded at major highways across India were reported. While major highway toll junctions on the Gujarat and Delhi-Mumbai highways also saw long queues as toll plaza operators refused the old banknotes. Nitin Gadkari, the Minister of Transport, subsequently announced a suspension of toll collections on all national highways across India until midnight of 11 November, later extended until 14 November and again until midnight of 18 November, and yet again till 2 December.

- **Agriculture:**
  Transactions in the Indian agriculture sector are heavily dependent on cash and were adversely affected by the demonetization of ₹500 and ₹1,000 banknotes. Due to scarcity of the new banknotes, many farmers have insufficient cash to purchase seeds, fertilizers and pesticides needed for the plantation of rabi crops usually sown around mid-November. Farmers and their unions conducted protest rallies in Gujarat, Amritsar and Muzaffar nagar against the demonetization as well as against restrictions imposed by the Reserve Bank of India in district co-operative central banks which were ordered not to accept or exchange the demonetized banknotes.

- **Dumping of agricultural produce:**
  The demonetization led to unavailability of cash to pay for food products. The reduction in
demand that arose in turn led to a crash in the prices of crops. Farmers were unable to recover even the costs of transportation from their fields to the market from the low prices offered. The prices dropped as low as 50 paise per kilo for tomatoes and onions. This forced the farmers across the country to dump their products in desperation. Some farmers resorted to burying unsold vegetables. Agricultural produce such as vegetables, food grains, sugarcane, milk and eggs were dumped on roads. Some farmers dumped their produce in protest against the government.

- **Business:**
  By the second week after demonetization of ₹500 and ₹1,000 bank notes, cigarette sales across India witnessed a fall of 30–40%, while E-commerce companies saw up to a 30% decline in cash on delivery (COD) orders. Several e-commerce companies hailed the demonetization decision as an impetus to an increase in digital payments. They believe that it would lead to a decline in COD returns which is expected to cut down their costs. The demand for point of sales (POS) or card swipe machines has increased. E-payment options like PayTM and Instamojo Payment Gateway, Pay U Money has also seen an arise. According to data of Pine Labs, the demand for its POS machines doubled after the decision. Further it states that the debit card transactions rose by 108% and credit card transactions by 60% on 9 November 2016.

- **Forecast of GDP growth rate:**
  Global analysts cut their forecasts of India’s GDP growth rate due to demonetization. India’s GDP in 2016 is estimated to be US $ 2.25 trillion; hence each 1 percent reduction in growth rate represents a short fall of US $ 22.5 billion (Rs. 1.54 lakh crores) for the Indian economy.

- **Drop in industrial output:**
  There was a reduction in industrial output as industries were hit by the cash crisis. The Purchasing Managers’ index PMI fell to 46.7 in November from 54.5 in October recording its sharpest reduction in three years. A reading above 50 indicates growth and a reading below shows contraction. This indicates a slowdown in both, manufacturing and services industries. The PMI report also showed that the reduction in inflation in November was due to shortage in money supply. The growth in eight core sectors such as cement, steel and refinery products, which constitute 38% of the Index of Industrial Production (IIP), was only to 4.9 percent in November as compared with 6.6 percent in October.

- **Seizures of ₹2000 notes:**
  Huge amounts of cash in the form of new notes were seized all over the country after the demonetization. As of December 2016, over 4 crores in new banknotes of ₹2000 were seized from four persons in Bangalore, ₹33 lakhs in ₹2000 notes were recovered from Manish Sharma, an expelled BJP leader in West Bengal, and ₹1.5 crore was seized in Goa. 900 notes of the new ₹2000 notes were seized from a BJP leader in Tamil Nadu. Around ₹10 crores in new notes were seized in Chennai. As of 10 December, ₹242 crores in new notes had been seized. It was noted in the media that while people were dying in queues to obtain a few thousand rupees in cash, persons with the right connections were able to amass
crores of rupees in new notes, thus rendering the demonetization exercise futile. It was announced by the government that the seized notes will be brought into the mainstream as soon as possible to ease out the cash problem.

- **Railways:**
  As of November 2016, Indian Railways did not have the option to make payment with cards at the counters. After the demonetization move, the government announced to make card payment options available at railway counters in the country.

**VI. CONCLUSION**

So far, it can be said that this is a historical step by the Modi Govt. and should be supported by all. This decision of govt. will definitely fetch results in the long term. Growth to be positively impacted over medium to long term with near term hiccups: The move is likely to be negative for growth in the near-term, as informal sector activity, which is supported primarily through cash transactions, slows down in a knee-jerk response. By expenditure, personal consumption accounts for nearly 60% of total GDP. Sectors such as agriculture, construction, trade, hotels, transport, real estate and another services amount to around 56% of total GVA. Our assumption is close to 30% of the economy (50% of the above sectors) will be affected due to limited availability of legal tender. However this impact should be felt only in the short run as money from informal channels getting converted into formal banking channels because of the current measure would lead to faster expansion of our GDP (due to higher multiplier than parallel economy), thereby leading to higher GDP growth going forward. Thus, from an equity market perspective, this move would be positive for sectors like Banking and Infrastructure in the medium to long term. This could be negative for sectors like Consumer Durables, Luxury items, Gems and Jewellery, Real Estate and allied sectors, in the near to medium term. This move can lead to improved tax compliance, better fiscal balance, lower inflation, lower corruption, complete elimination of fake currency and another stepping stone for sustained economic growth in the longer term.

**VII. REFERENCES**

[2] CARE RATINGS professional risk opinion "Impact of demonetization on GDP" Nov. 18, 2016

TO CITE THIS PAPER