

Review Paper on Effect of Demonetization

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Abstract: *The think tank carefully planned demonetisation, which was then unexpectedly announced, with the goal of reducing black money in the Indian economy. The cash limitation severely damaged the economy's machinery by creating unavoidable unemployment. The informal sector, which makes up 80% of all employment in India, was severely affected. They had to adhere to a one-meal-per-day schedule due to the labour force's backward movement. There have been job losses in the leather sector of about 2.5 lakh people, the diamond industry of 20,000 people, and the jewellery business of 15 to 20 percent of daily wage earners. The government itself reduced its prediction for the GDP for 2016–2017 from 7.6% to 7.1%. The International Monetary Fund (IMF) has lowered its 6.6% GDP forecast for the years 2016–17. The number of new investments decreased by 50% in the wake of the cash prohibition. On December 15, 2016, the value of the rupee decreased by 1.69 percent. Investor confidence in the stock market was initially damaged by the surgical attack on black money. Estimates place the cost of demonetisation at Rs. 4.3 trillion, not considering GDP losses. The administration saw the effect as passing, whereas economists saw it as cannonballs being fired at mosquitoes. To combat black money, demonetisation is a long-awaited strategy. All other necessary steps must also be taken right away by the government in order to guarantee the effectiveness of the cash ban.*

Keywords: corporate governance, cyber security, industrial lobbying, and demonetisation

I. INTRODUCTION

The Indian economic ecosystem has abruptly collapsed as a result of demonetisation. Industries that relied on cash were essentially shut down. The rural population lost their jobs. People who are working and living in poverty have been uprooted, significantly harming their ability to support themselves. Inputs for farmers were unavailable, while private clinics turned away patients with out-of-date medical records. Some working class people struggled to buy food and had to stick to a regular meal plan. The working class's incapacity to structurally adapt to the shock doctrine economics caused weddings and other social events to be disrupted.

Even before the demonetization, the government had a difficult time creating jobs. More jobs were lost as a result of the cash limitation in numerous economic sectors. In the leather industry, about 2.5 lakh individuals lost their employment, and in the diamond industry, 15–20 percent of daily wage workers did as well. Gujarat no longer has many ceramic tile manufacturing facilities. In Surat, more than 20,000 people lost their jobs in the diamond business. Billions of people lost money as a result of the reverse migration of the labour brought on by demonetisation.

Sitaram Yecherury, a CPI member, claims that since November 8, 2016, 4 lakh jobs have disappeared and over 31.9 million textile workers have not received pay. In the wake of demonetization, the All India Manufacturers Association (AIMA) forecast a 60% reduction in employment and a 55% decline in revenue for its member units. Because of a lack of funding, the infrastructure sector in India saw a 35% decline in employment.

The Indian labour market benefited from the 2017–18 budget. The budget suggests young employment in the tourism, footwear, leather, textile, and manufacturing industries, according to Rituparna Chakraborty of Teamlease. Employment will rise by 5% to 10% if the corporate tax rate is lowered from 30% to 25%. Investments that are centred on infrastructure will aid in growing the industry's employment. Digital payments also encourage the creation of jobs in companies related to cyber security.

II. BANKING SYSTEMS AND INVESTMENTS

India's capital formation has been falling since 2011, per a World Bank report. Demonetisation has also complicated the flow of investment. 50 percent of new investments were made after demonetization. Prior to the cash restriction, there

were 227 investment ideas; by December 31, 2016, there were 177. The amount of investment proposals dropped from Rs. 81,8 billion to Rs. 43,7 billion during that time. Private Final Consumption Expenditures (PFCE) dropped to 5.5% in 2016 from 7.5% in 2015–16. However, the government's dedication to macroeconomic stability has proven crucial to India's potential to draw in more foreign investment. Examples include lowering inflation, cutting bank rates and bank deposit rates, and drastically reducing the current account deficit. The West Bengal government received investment offers worth Rs. 2.35 lakh crore in January 2017¹². The government budget for 2017–18 also created a favourable environment for investment in the Indian economy.

GDP AND DEMONETISATION

The shrinkage of the cash supply slows GDP expansion. The Indian government has lowered its 7.6% to 7.1% GDP prediction for the years 2016 to 2013. Additionally, the International Monetary Fund (IMF) lowered its estimate of India's GDP for 2016–17 from 7.5% to 6.6%. Fitch, an American rating agency, forecasted a decline in India's GDP from 7.4% to 6.9% for the 2017–15 fiscal year. ICRA and CARE, two Indian rating agencies, both lower their FY17 GDP predictions to 6.8%.

Demonetization¹⁶, according to Mahesh Vyas, CMIE, will cause India's GDP growth to decelerate to 6% yearly starting in 2017–18. According to the budget for that fiscal year, the impact of the cash restriction is not anticipated to persist into the 2017–18 fiscal year.

BANKING SYSTEMS AND CURRENCY VALUE

A currency's value is influenced by supply and demand. The rupee has decreased by 1.69 percent since demonetization, from Rs. 66.63 to Rs. 67.75 on December 15, 2016. This pattern will persist until full monetary circulation has been recovered. From 11.8% on November 4, 2016, to 6.5% on January 20, 2017, the currency circulation dropped. The US Federal Reserve raised interest rates from 0.5% to 0.7% between November 7 and December 12, 2016, which caused around \$1.4 billion in foreign investor funds to leave the Indian Stock Market. The FOREX reserve fell from \$367.04 billion to \$359.67 billion in the same time period. The withdrawal cap for checking accounts was raised as of February 1, 2017. The savings account holder's cash withdrawal cap is probably going to be removed by the end of February 2017. The rupee will benefit from increased money circulation in the near future once these transitional challenges are eliminated.

REAL ESTATE AND DEMONETIZATION

Indian real estate requires a lot of cash. In addition, the industry has been declining for the previous three years. There have been about 37% fewer registered properties in Mumbai since demonetization. While prices had dropped by 20%, the rate of home sales had fallen by 50%. The government budget for 2017–18 gave major attention to real estate, which is advantageous for purchasers, developers, and investors. Indian realities will benefit from the proposed infrastructure status for affordable housing, which includes a pledge to build one billion rural homes over the next two years. Sunil Rohokale of ASK Group claims that once the infrastructure becomes a reality, there are numerous options to obtain funding from insurance companies and pension funds. Sector transparency will be improved through Smart Cities, Housing for All by 2022, AMRUT, the Real Estate (Regulatory and Development) Act, the Benami Transaction Act, and the GST Act. All industry participants agree, nevertheless, that pricing is a major problem.

DEMONETIZATION AND DIGITALIZATION

In India, there are only 6.7 card transactions made per person on average compared to 201.7 in the UK. India is evolving into a digital nation. Currently, a massive digital revolution is about to occur. According to government estimates, a sizable fraction of illegal assets are stored in high-value currencies. Approximately 14.97 trillion rupees worth of illicit cash, or 96.5% of all restricted currency, has been deposited into banks as of December 30, 2016. It shows that just Rs. 54 trillion billion was not reimbursed. The 96.5% deposits are made up of loan repayments totaling Rs. 80,000 crore, dormant accounts totaling Rs. 250,000 crore, co-operative deposits worth Rs. 16,000 crore, and Regional Rural Bank deposits worth Rs. 13,000 crore. Each of the 60 million bank accounts received a deposit of more than Rs. 2 lakh during the time 20. The cash ban's focus has been changed to the online economy since it will take time

to find hidden currency amid the confusion. In general, the cash-based economy resulted in the buildup of illicit wealth. Services become more effective, formal, and responsible as a result of digitization. Daily mobile wallet transactions increased by 12 after demonetization. People started adopting digital payment methods even for little purchases as the average transaction amount dropped from Rs. 750 to Rs. 500. "PayTM" showed a threefold increase during the post-shock therapy, and "Oxygen" increased by 160%. Mobile wallet adoption has increased among the rural populace. Specific tax advantages and awards should be offered to entice people to use digital payment systems.

POST-DEMONETIZATION INDIAN STOCK MARKET

In actuality, investors' confidence was weakened by the surgical attack on black money. On the day after the cash ban, the BSE SENSEX fell by slightly less than 6%. The financial market volatility, as rightly said by Warren Buffet, "be scared when others are confident," provided nothing but buying chances despite uncertainty. The BSE SENSEX experienced its biggest weekly increase in eight months on January 27, 2017, rising 0.63 percent. Additionally, the Nifty rose 0.45% throughout the course of that weekend²¹. PorinjuVeliyath of Equity Intelligence India claims that the long-term effects of demonetization on the Indian formal sector have been positive. The formal sector needs to draw significant stock market investments if it is to compete with the unorganised sector. Long-term capital gains from equities are still exempt from taxes under the Union Budget 2017–18, which increased the BSE SENSEX and the Nifty on the budget day by 485,68 points and 155.1 points, respectively.

III. CONCLUSION

Demonetization's implementation is necessary for it to be successful. The Commonwealth of Independent States (CIS) was established as a result of the Demonetisation programme carried out by the Union of Soviet Socialist Republics (USSR) in 1991. A similar action in North Korea resulted in homelessness, while a cash ban in Nigeria in 1984 caused the country's economy to completely collapse. It is well known that when the cash crisis first started, the government apparatus was unprepared for the difficulties it would provide. During the first three weeks following its publication, nearly 62 adjustments and notifications were made. Consumer confidence has been utterly weakened psychologically, making a comprehensive strategy to boost domestic consumption by boosting working class purchasing power necessary. India is wealthy, but the people live in poverty. Therefore, a consistent yet moderate rate of inflation is always required to safeguard the underprivileged Indians who work as day labourers.

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