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# A Study on Demonetization Impact on Indian Economy

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**Abstract:** *With drawing units of money from circulation is demonetisation, units of money are denied the status of legal tender. Demonetisation is defined as a process by which currency units will not remain legal tender. The currency notes will not be taken as a valid currency. It may involve the introduction of new notes or coins of same denomination or new denomination. The currency has been demonetised thrice in India the first demonetisation was on 12<sup>th</sup> January 1946, second on 16<sup>th</sup> January 1978 and the third was on 8<sup>th</sup> November 2016. This study is to know what is demonetisation and reasons of demonetisation. The study also gives an insight into success and failures of demonetisation and impact of demonetisation on Indian economy and on various sectors like agriculture, banking, real estate, consumer markets, pharmaceutical and automobile industry and. It represents comparative study of demonetisation in India with Venezuela and Zimbabwe and impact of demonetisation on GDP, Inflation, Currency in circulation to GDP ratio and digital payments which was the secondary objective of demonetisation. This study is of descriptive nature and is based on secondary data. Demonetisation is one of the big measure initiated by government in addressing the various issues like black money, counterfeit currency, corruption.*

## I. INTRODUCTION

Demonetisation is the act of stripping a currency unit of its status as a legal tender. The current form or forms of currency is pulled from circulation, often to be replaced with new notes or coins.

The Government of India announced the demonetisation of all Rs.500 and Rs.1000 banknotes on November 8<sup>th</sup> 2016. It also announced the issuance of new Rs.500 and Rs.2000 banknotes in exchange for the demonetised banknotes. The announcement of demonetisation was followed by prolonged cash shortages in the weeks that followed, which created significant disruption throughout the economy.

Approximately 99.3% of the demonetised banknotes or Rs.15.30 lakh crore (15.3 trillion) of the Rs.15.41 lakh crore that had been demonetised. According to a 2018 report from the Reserve Bank of India, The banknotes that were not deposited were only worth Rs.10720 cr (107.2 billion), leading analysts to state that the effort had failed to remove black money from the economy.

### A. History Of Demonetisation

- 1) *Demonetisation of 1946:* In 1946, the currency notes of Rs.1000 and Rs.10000 were demonetised. The higher denomination notes were not accessible to common people at that time. So it does not have much impact on common people. It impacted functioning of State Bank of India as there were only 71 bank offices at that time. The profits of banks also taken a hit and they are low as compared to that of previous years.
- 2) *Demonetisation of 1978:* Government demonetised Rs.1000, Rs.5000 and Rs.10000 notes in 1978. There was political angle involved in this demonetisation as newly formed Janata government at that time wanted to target some of the corrupt elements in the government. The impact of currency ban on common people was less as demonetised notes forms a small portion of money supply.
- 3) *Demonetisation of 2016:* The exercise of demonetisation was announced by prime minister of India Narendra modi on 8<sup>th</sup> November at 20.15 IST to demonetise Rs.500 and Rs.1000 notes. The goal of demonetisation to curb black money. The demonetised currency forms 86% of total money circulation. The government has given permission to use the old notes in government hospitals for treatment and buying medicines and making payments for milk and utility bills. To ensure convenience of people and to travel with in the country purchase of air, railway and bus tickets with old notes is permissible. Similarly grace period is allowed on purchase of petrol, diesel and LPG gas cylinders for cooking with old notes. The post offices which have significantly pressure in rural areas than commercial banks also permitted to exchange old notes. The main difference between previous drives of demonetisation and current one is that currency of higher denomination was barely in circulation unlike Rs.500 and Rs.1000 notes.

### *B. Objectives Of Demonetisation*

- 1) To tackle black money
- 2) To transform Indian economy in to cashless economy
- 3) To bring tax evasion to halt
- 4) To curb illegal and unethical business activities such as human trafficking, smuggling of gold and drugs.

### *C. Demonetisation Process*

The plan to demonetise the Rs.500 and Rs.1000 banknotes was initiated between six and ten months before it was announced, and was kept confidential. In April 2016, a report by the State Bank of India analysed possible strategies and effects of demonetisation. In May 2016, the Reserve Bank of India had started preparing for new banknotes and confirmed the design of Rs.2000 banknotes in August 2016. The Union cabinet was informed about the demonetisation on 8 November 2016 in a meeting in the evening called by the Indian Prime Minister Narendra Modi. Soon after the meeting, Modi announced the demonetisation at 20:15 IST. He declared circulation of all Rs.500 and Rs.1000 banknotes of the Mahatma Gandhi Series as invalid effective from the midnight of the same day, and announced the issuance of new Rs.500 and Rs.2000 banknotes of the Mahatma Gandhi New Series in exchange for the demonetised banknotes.

The RBI has stipulated that the banknotes could be deposited with banks over a period of fifty days until 30 December 2016. The limit for such exchange was Rs.4000 per person from 8 to 13 November, was increased to Rs.4500 from 14 to 17 November, and reduced to Rs.2000 from 18 to 25 November. The exchange of banknotes was stopped completely on 25 November. International airports also facilitated an exchange of banknotes for foreign tourists and out-bound travellers, amounting to a total value of rs.5000 per person. Fuel pumps, government hospitals, railway and airline booking counters, state-government recognised dairies and ration stores, and crematoriums were allowed to accept the demonetised banknotes until 2 December 2016.

Cash withdrawals from bank accounts were restricted to Rs.10000 per day and Rs.20000 per week per account from 10 to 13 November. This limit was increased to Rs.24000 per week from 14 November 2016. RBI increased the withdrawal limit from Savings Bank account to Rs.50000 from the earlier Rs.24000 on 20 February 2017 and then on 13 March 2017, it removed all withdrawal limits from savings bank accounts.

A daily limit on withdrawals from ATMs was also imposed varying from Rs.2000 per day until 14 November, and Rs.2500 per day until 31 December. This limit was increased to Rs.4500 per day from 1 January, and again to Rs.10000 from 16 January 2017. From 17 November, families were allowed to withdraw Rs.250000 for wedding expenses. Farmers were permitted to withdraw Rs.25000 per week against crop loans.

### *D. Scope Of The Study*

The study is limited to impact of demonetisation on few sectors like agriculture, automobiles, consumer markets, banking and pharmaceutical industry. As it is based on secondary data and the study compares demonetisation with other two countries Venezuela and Zimbabwe and to know about demonetisation success and failures and impact of demonetisation on Indian economy with help of parameters like inflation, GDP, digital payments and stock market and currency - GDP ratio.

### *E. Objectives of The Study*

- 1) To study the impact of demonetisation on various sectors like agriculture, banking, consumer markets and pharmaceutical industries, automobile industry and real estate
- 2) To study the comparison of demonetisation in India with two countries Venezuela and Zimbabwe.
- 3) To study the success and failures of demonetisation
- 4) To study the impact of demonetisation on Indian economy with help of parameters like inflation, GDP, digital payments and stock market and currency to GDP ratio.

### *F. Research Methodology*

The study is of descriptive nature. Keeping in view of objectives in the present study secondary data has been used. The study represents impact of demonetisation on various sectors agriculture, automobile, banking, real estate, consumer markets and impact of demonetisation with the help of parameters like inflation, GDP, digital payments, stock market and currency in circulation to GDP ratio. The entire study is based on secondary data. The relevant data collected from journals, publications, websites and many other websites. Books have also been referred for theoretical information.



## II. REVIEW OF LITERATURE

Dr. Pratap Singh , Virender Singh (2016) India has amongst the highest level of currencies in circulation at 12.1% of GDP. Cash on hand is an estimated at around 3.2% of household assets, higher than investment in equities, or roughly around \$ 220 billion. Of this cash, 87% is in the form of Rs 500 and Rs 1,000 notes or roughly Rs 14 lakh crore (\$190 billion). A significant portion of the household cash on hand is generated by economic transactions that are not reported to tax authorities or generated through corruption. Scrapping the higher denomination money would either result in these being brought into the system or the money just disappearing.

Muthulakshmi E .Kamatchi(2017) In her paper entitled impact of demonetisation on Indian economy- issues and challenges states that money is withdrawn from economy, the country will not be benefitted in short term , on the other hand if the money paves its way in to the economy, it would have positive and meaningful impact she also states that the demonetisation move, on one hand, was a serious attack on black money, corruption, counterfeit currency. On the other hand it has a negative impact on various sectors like commodities and real estate.

Shah, Ayash Yousuf (2017) state that demonetisation is one of the major steps in fighting against corruption, black money and terror funding. However, this decision was taken without proper preparation and it adversely impacted the public without printing enough new currency notes 86% of currency were withdrawn thrashing all market transactions, only common people had to face the problem exchanging the currency not the people who were targeted with an intention to rid the country of black money and dig out tax defaulters and black money holders, the government has taken the step to demonetise Rs.500 and Rs.1000 notes. The sudden announcement of demonetisation and failing to plan properly has created chaos among the general public common people were facing problems wasting their time standing in endless queues could have been easily avoided with advance planning.

VeeraKumar. K(2017) Posits that the announcement of demonetisation of Rs.500 and Rs.1000 by the government is a big shock to the citizens of India. The highest currency notes are withdrawn are the economy to counter problems of tax evasion, counterfeit notes and terror financing. It is shown that huge amount of money is being deposited with banks which are more than specified limits and are subject to penalties and taxes. Usage of e wallets debit and credit cards has been increased tremendously and this will create better cashless infrastructure.

Abhani Dhara K (2017) posits that this demonetisation is proving to be successful than the previous two the era is changing people are using online banking as mode of payment bank employees are giving their best to make the demonetisation a successful one. Their support matters a lot. Though the demonetisation move has failed to grab total black money in the economy, this has at least created fear in the minds of the people holding black money. He concluded that demonetisation was a compulsory step to tackle the problem of black money corruption and terror financing

### A. Demonetisation In Venezuela And India

VENEZUELA	INDIA
It demonetised its 100 Bolivar notes on 12 <sup>th</sup> December 2016	It demonetised its INR on 8 <sup>th</sup> November 2016

India and Venezuela will be remembered for aiming at demonetisation of their highest denomination currencies. India is the largest democracy in the world while Venezuela is socialist. Hence demonetisation has been carried out in two different ways

On November 8<sup>th</sup> 2016 Narendra Modi of India declared demonetisation and in case of Venezuela Nicolas Madaro was announced on December 11<sup>th</sup> 2016 they gave people 72 hours to use old notes and after which they have 10 days to deposit the old banknotes in banks. The withdrawal of notes stand still January 2<sup>nd</sup> 2017 as it has been realised that like in India, the supply of new notes has not kept pace with the demand.

Venezuela demonetised the 100 Bolivar notes which forms 48% of all currency in circulation.

- 1) It is one of the worst performing Latin American nations with hyper inflation. The IMF forecasted that it would cross 1500 percent following year. The official currency exchange rate is 1 Bolivar is equal to 10 US cents though the black market rate is 2 cents. The reason for demonetisation is to stop the operations of mafia blocking the border to Colombia.
- 2) Its objective is to tackle transnational gangs which hoard the Venezuela notes abroad, that the depreciating value of the note in comparison with US dollar has allowed gangs to buy Venezuelan bank notes cheaply on the black market and then they use it to buy subsidised goods to sell at a profit in neighbouring Colombia. To reduce the inflation as the country is undergoing a major crisis with inflation forecast of 500% in 2016, which leads to suffering of millions of people.

- 3) A similarity in the case of two countries is implementation of schemes where supply of new currency has just not been adequate. The problem starts with printing of new currency and distribution of currency to the banks which will provide cash to their branches and ATM's.
- 4) In Venezuela it took longer time to be normal as systems are much weaker as compared to India and its effect is likely to be deeper while as in India there was temporary economic distortion which is normal during the first quarter of 2018.
- 5) The reaction of public was quite different in case of two countries in India people understood the broader goal of black money and they borne the difficulties with patience while as in Venezuela conditions have not been peaceful, violence has been erupted in less than a week with people rioting, attacking banks and ATM's causing a lot of destruction. So there extended the time for withdrawal till January. The message has not been clearly explained to the public unlike in India.

It does appear that these two countries will serve as paradigms planning to attack the black money through demonetisation. These two countries show what should be done before embarking on such an exercise.

#### B. Demonetisation In India And Zimbabwe

ZIMBABWE	INDIA
It demonetise its dollar from 15 <sup>th</sup> June 2015	It demonetised its INR on 8 <sup>th</sup> November 2016

- 1) The government of Zimbabwe announced the demonetisation of Zimbabwe Dollar in 2009 which became final in 2015. The country adopted multiple currency system including euro (EUR), U.S. Dollar (USD) and South African Rand (ZAR). At least nine currencies are accepted as a legal tender.
- 2) The primary reason for demonetisation for initiating demonetisation was hyperinflation. Its motive is to bring the stability in financial markets
- 3) The government also introduced a batch of bond notes as a form of alternative currency, with a bond note having an exchange rate of 1:1 with US Dollar.
- 4) A lot of work has been done since January 2015 for commencement of demonetisation process on 15<sup>th</sup> June 2015 and ending on 30<sup>th</sup> September 2015. The work involved banks supplying information relating to bank balances and Reserve Bank authenticated these with the information which was already in its possession.
- 5) Zimbabwe adopted the multiple currency system in 2009 and therefore it is necessary to demonetise the Zimbabwe dollar with the multiple currency system as was approved in finance act of 2009. The demonetising of Zimbabwe dollar was pending since 2009.
- 6) Holders of the currency were given until 30<sup>th</sup> September 2015 to turn in their money to the nearest bank in exchange for US Dollars.
- 7) People with accounts of zero to 175 quadrillion Zimbabwe Dollars were paid a flat rate of USD\$5. Accounts containing more than Z\$ 175 quadrillion were exchanged a rate of USD\$1.
- 8) The finance and economic development minister Patrick chinamasa said that demonetisation exercise would cost US\$20 million. As of August 2015, local banks had reported that US\$4 million worth of Zimbabwe dollars to USD.
- 9) Being adopting the multi currency system is meant to promote confidence in the economic sector. Traders in Zimbabwe have their preferences as to which type of money to accept but the U.S. Dollar is the most widely accepted throughout the country.
- 10) The notes are sold as souvenirs to tourists and some people have take to make crafts out of them.
- 11) People even to buy a loaf of bread had to pay amount in trillion, when the highest denomination note – 100 trillion dollar was not issued, ATM's were running out of cash as people were withdrawing cash in billions/trillions. All this contributed to hyper inflation, so the government decided to demonetise its dollar,
- 12) The process was carried out hurriedly which resulted in loss of wealth holders whom they saw their accumulated savings turn valueless due to the demonetisation. The country experiences annual inflation rate of 3.8% annual inflation rate as of 2018.

Recently in June 2019, the Reserve Bank of Zimbabwe abolished multiple currency system and replaced it with Zimbabwe dollar with the aim to stabilising prices. Yen, Indian Rupee, South African Rand are no longer permissible in the country except for payment of international airlines and duty for specified luxury goods and services. President Emmerson Mnangagwa said that Zimbabwe is back to normalcy and normalcy is that a country should have its own currency. The re-introduction of local currency is adopted because most of the traders are charging their goods and services in foreign currency, particularly the US Dollar as almost 80% percent of country's population is not getting foreign currency.

### C. Demonetisation Success And Failures

#### Success Points

##### 1) Increase In Tax Complainece

- a) 56lakh new tax payers added
- b) Number of returns filed increased 24.7 % in 2017 compared to 9.9% in 2016.
- c) Tax collections of personal income tax grow at 41.79% as compared in the year 2016.
- d) Personal income tax under self-assessment tax grow at 34.25% as compared to 2016.

##### 2) Cleansing India's Financial System

- a) Transactions of more than 3lakh suspected shell companies under radar.
- b) 2.1lakh shell companies de-registered.
- c) Around 450 companies delisted and 800 untraceable companies delisted.
- d) More than 400 benami transactions identified

##### 3) Highest Ever Detection Of Black Money

- a) Scrutiny of suspected 18lakh accounts done
- b) Advance data analytics tools identified 5.56lakh new suspect cases
- c) Rs.473003 suspicious transactions detected.
- d) Undisclosed income worth Rs.29213 cr. detected and admitted

##### 4) Benefits To The Country

- a) Deposits in banking system increased around Rs.3lakh cr.
- b) Digital payments increased by 56% from 71.27cr transactions in October 2016 to 111.45cr transactions in may 2017.
- c) More than 1crore workers added to EPF and ESIC system post demonetisation.
- d) Banks accounts opened for 50lakh workers to get their wages directly credited in their accounts.

## III. DATA ANALYSIS AND INTERPRETATION

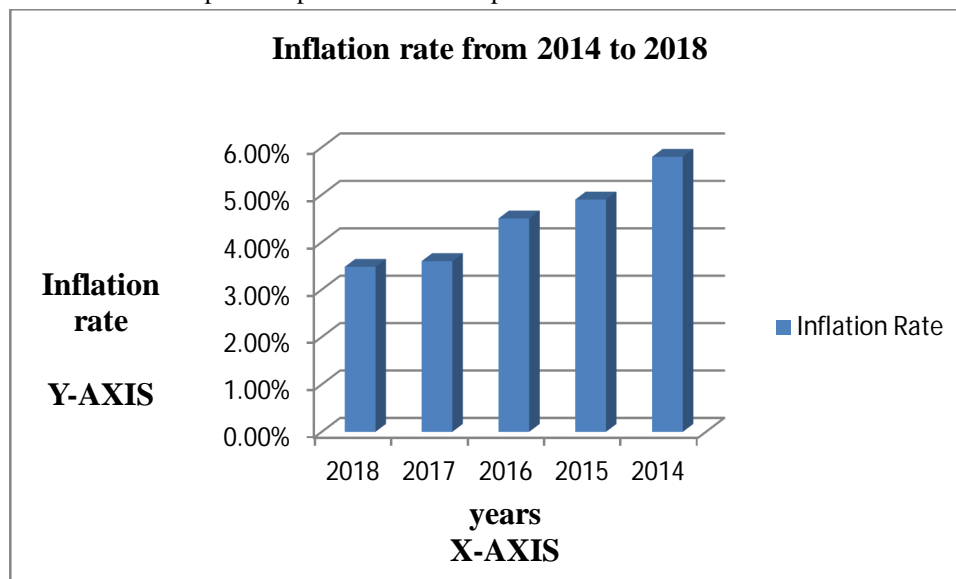
### A. Impact of Demonetisation on Inflation

Demonetisation has a negative effect impact on inflation. Inflation is increase in price of goods and services over time. Consumers spending activity fell to a near halt. Consumers are refraining from making any purchases except purchases of essential items. Activity in real estate involves more of cash and undocumented transactions had slowed down. Metropolitan cities have seen 30% fall in house prices. Consumer price index (CPI) and wholesale price index (WPI) is considered to be key gauge of inflation. According to government press releases the official WPI of commodities for the month of November 2016 is 183.1 and for December 2016 is 182.8 which is declined by 0.2%. Due to 86% of currency in circulation goes out of financial system, the supply and demand of food items fell.

TABLE.4.1 Impact of demonetisation on inflation

years	Inflation Rate
2018	3.48%
2017	3.6%
2016	4.5%
2015	4.9%
2014	5.8%

FIG. 4.1 Graphical representation of impact of demonetisation on inflation



- 1) *Interpretation:* The table shows inflation rate from 2014 to 2018. From the below figure x-axis represent years and y-axis represent inflation rate and inflation has been decreased to 3.6% in 2017 as compared to previous year 4.5% in 2016. As there is less money supply in the country due to demonetisation inflation rate has been decreased.

#### B. Impact OF Demonetisation ON GDP

Gross domestic product is total monetary or market value of all finished goods and services within a country's borders. It is an important indicator of economic strength of a country. Demonetisation has largely affected GDP growth rate. The GDP growth rate fell to 7.17% in 2017 from 8.17% in 2016 after demonetisation. This was due to less availability of cash in cash intensive industries like manufacturing and construction and has short term disruptions in transactions in agriculture and all sectors.

TABLE.4.2 Contribution of various sectors to GDP

Sectors	Contribution (%)
Services	57.9
Industry	24.2
Agriculture	17.9

FIG. 4.2 Graphical representation of contribution of sectors to GDP

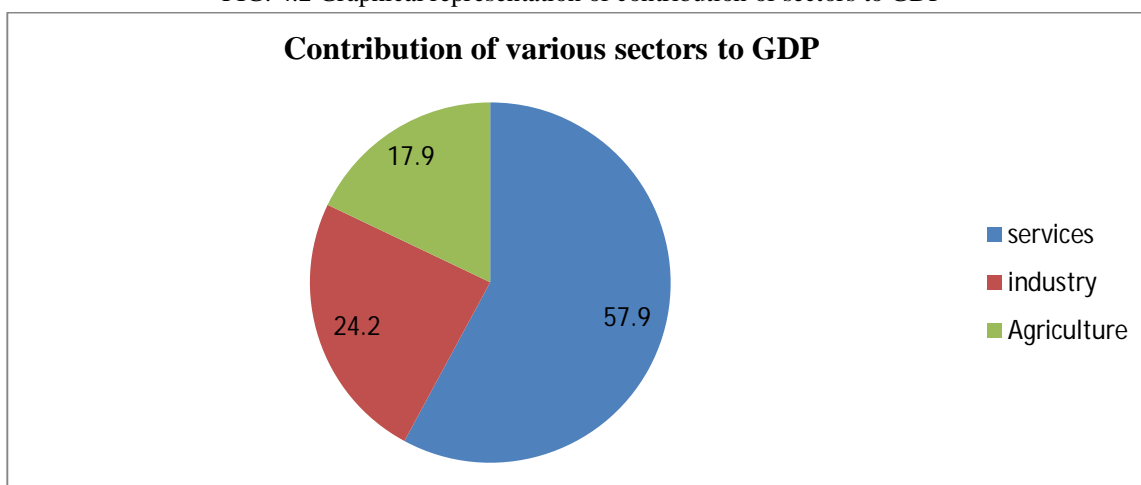
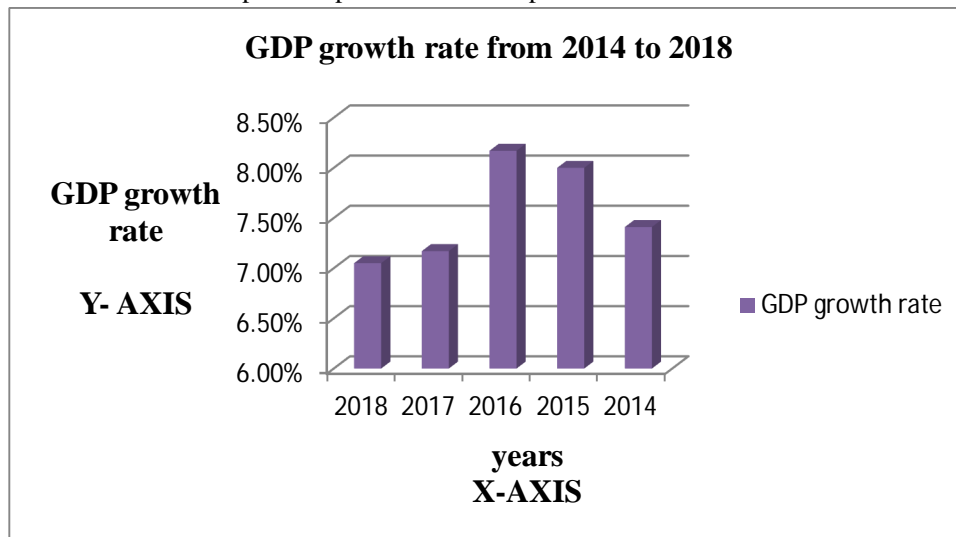


TABLE 4.3 Impact of demonetisation on GDP growth rate

years	GDP growth rate
2018	7.05%
2017	7.17%
2016	8.17%
2015	8.0 %
2014	7.41%

FIG 4.3 Graphical representation of impact of demonetisation on GDP



- 1) *Interpretation:* The graph above shows the GDP growth rate from 2014-2018 as x –axis represent years and y-axis represent GDP growth rate. The GDP has been drastically decreased from 2016 as there was less income in service sectors and all sectors affected due to demonetisation.

### C. Impact of Demonetisation on Digital Payments

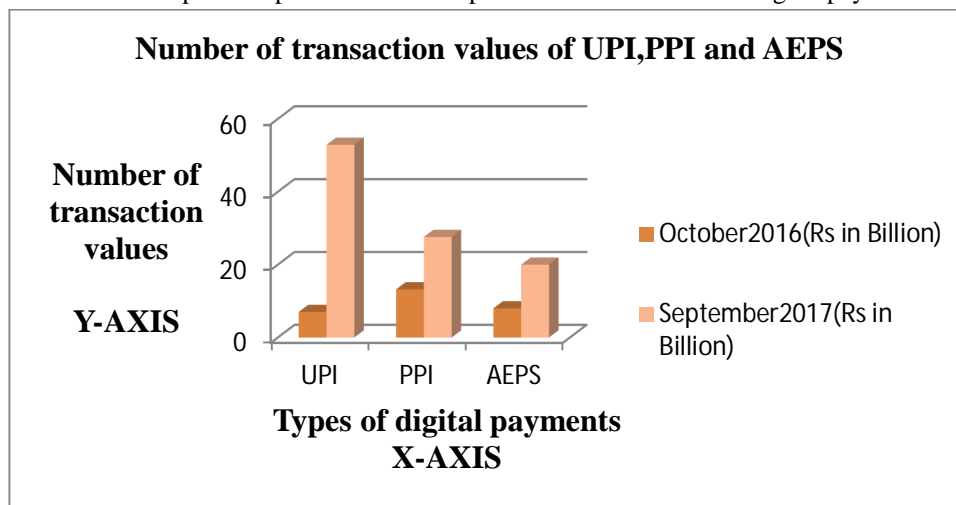
Digital Payments was one of the intention of demonetisation. There was phenomenal growth of digital payments from November-December 2016 post demonetisation. With new instruments like UPI (unified payments interface), PPI (prepaid payments instruments) along with NEFT (National electronic fund transfer) and RTGS (Real time gross settlement). The number of debit and credit card transactions has been increased. The number of credit card transactions values increased to 374 Billion in September 2017 from 268 Billion in October 2016. The number of debit card transactions increased to 366 Billion from 321 Billion from October 2016.

TABLE 4.4 Impact of demonetisation on transaction values of various digital instruments

Digital payments	October2016(Rs in Billion)	September2017(Rs in Billion)
UPI	7	52.9
PPI	13.2	27.6
AEPS	8	20



FIG 4.4 Graphical representation of impact of demonetisation on digital payments

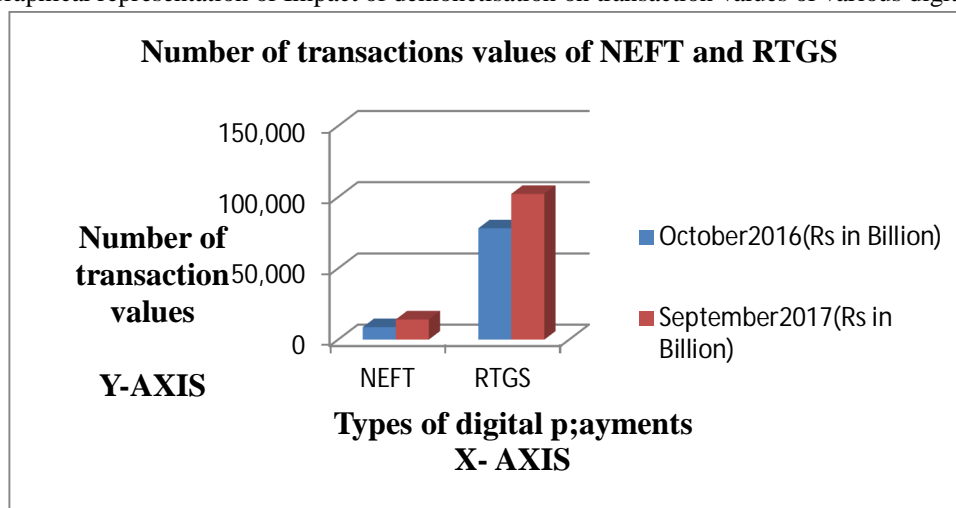


- 1) *Interpretation:* From the above graph the x- axis represent types of digital payments like UPI, PPI and AEPS. The transactions values increased post demonetisation. The goal of demonetisation to make cashless society is successful as UPI values increased from 7 Billion to 52.9 Billion and PPI increased from 13.2 Billion to 27.6 Billion

TABLE 4.5 Impact of demonetisation on transaction values of various digital payments

Digital payments	October 2016 (Rs in Billion)	September 2017 (Rs in Billion)
NEFT	8,808	14,182
RTGS	78,179	1,02,348

FIG 4.5 Graphical representation of Impact of demonetisation on transaction values of various digital payments



- 1) *Interpretation:* From the above, the x-axis indicates NEFT (National electronic fund transfer) and RTGS (Real time gross settlement) and y-axis indicates number of transaction values of October 2016 and September 2017. As seen in the graph NEFT has been increased to 14,182 Billion from 8,808 Billion and RTGS has been increased to 102,348 Billion from 78,179 Billion.

#### D. Impact OF Demonetisation ON Stock MARKET

Indian equity markets have been on a near secular falling trending because of government demonetised 500 and 1000 banknotes after midnight on 8<sup>th</sup> November 2016. The two benchmark indices the Nifty 50 and the S&P BSE Sensex fell on each trading day since the demonetisation except for November 10 and November 22, while the Nifty 50 fell 6.3% from November 8 to November 22, the S&P BSE Sensex fell 5.9% during the same period

However, the short term impact of demonetisation is over, Indian equities will likely bounce back sharply. The Indian rupee fell against US Dollar. It mainly fell due to Donald Trump's Victory in the US presidential election.

Table 4.6 Impact of demonetisation on NSE (NIFTY 50)

Date	NIFTY 50 indices
8 <sup>th</sup> Nov 2016	8543.55
9 <sup>th</sup> Nov2016	8432
10 <sup>th</sup> Nov 2016	8525.75
11 <sup>th</sup> Nov 2016	8296.3
15 <sup>th</sup> Nov 2016	8108.45
16 <sup>th</sup> Nov 2016	8111.6
17 <sup>th</sup> Nov 2016	8079.95
18 <sup>th</sup> Nov 2016	8074.1
21 <sup>st</sup> Nov 2016	7929.1
22 <sup>nd</sup> Nov 2016	8002.3
23 <sup>rd</sup> Nov 2016	8033.3

The National Stock Exchange of India Limited (NSE) is the leading stock exchange of India located in Mumbai. The NSE was established in 1992 as the first demutualised electronic exchange in the country. Vikram Limaye is managing director and CEO of NSE. The Nifty 50, the 50 stock index is used extensively by investors in India and around the world as barometer of Indian capital markets.

FIG 4.6 Graphical representation of impact of demonetisation on NSE

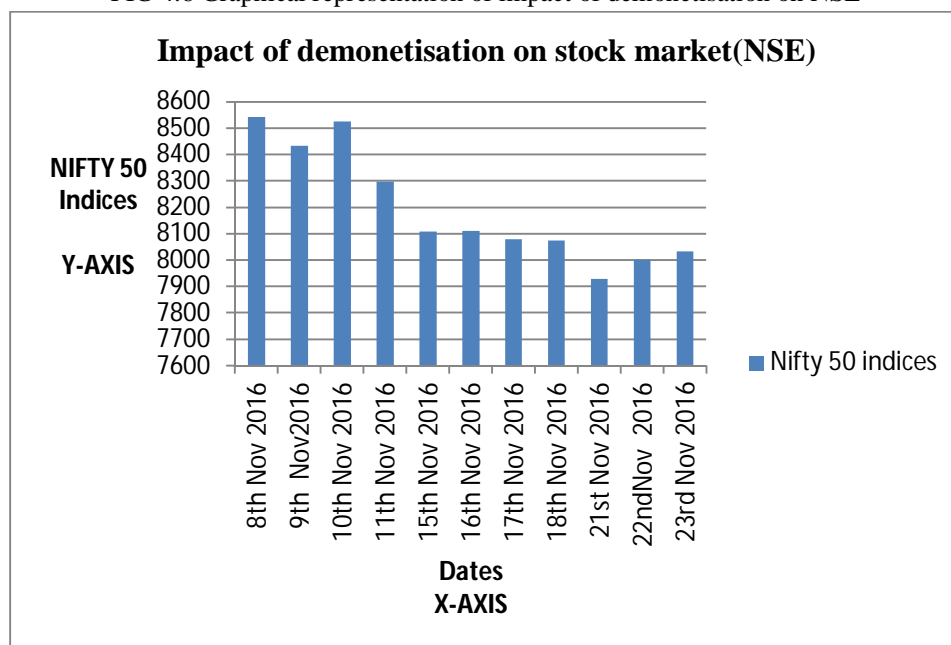
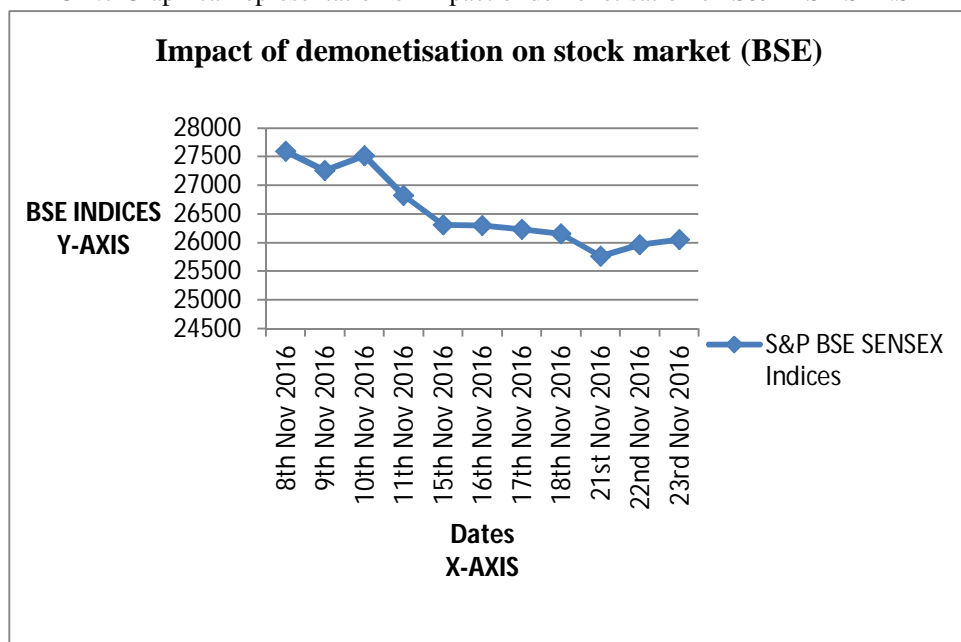


Table 4.7 Impact of demonetisation on S&amp;P BSE SENSEX

Date	S&P BSE SENSEX Indices
8 <sup>th</sup> Nov 2016	27591.14
9 <sup>th</sup> Nov 2016	27252.53
10 <sup>th</sup> Nov 2016	27517.68
11 <sup>th</sup> Nov 2016	26818.82
15 <sup>th</sup> Nov 2016	26304.63
16 <sup>th</sup> Nov 2016	26298.69
17 <sup>th</sup> Nov 2016	26227.62
18 <sup>th</sup> Nov 2016	26150.24
21 <sup>st</sup> Nov 2016	25765.14
22 <sup>nd</sup> Nov 2016	25960.78
23 <sup>rd</sup> Nov 2016	26051.81

The Bombay Stock Exchange (BSE) is an Indian stock exchange located at Dalal Street, Mumbai. it was founded on 9<sup>th</sup> July 1875. It is Asia's first stock exchange with an overall market capitalisation of more than \$2.2 trillion as of April 2018. In 1986, it developed the S&P BSE SENSEX a means to measure the overall performance of the exchange. On August 31<sup>st</sup> 1957 the BSE became the first stock exchange to be recognised by the Indian government under the securities regulation act in 1980

FIG 4.7 Graphical representation of impact of demonetisation on S&amp;P BSE SENSEX



- Interpretation:* From the above two graphs the x-axis indicates dates and y-axis indicates indices there was a fall in the stock market due to demonetisation as all the sectors are hugely impacted due to less availability of cash. On 9<sup>th</sup> November 2016 the NSE index was 8432 and BSE was 27252.53.

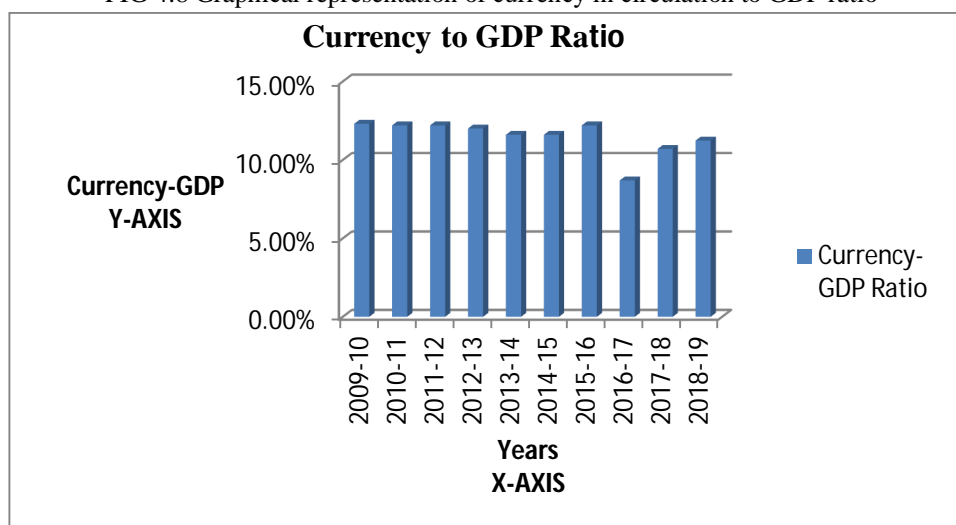
#### E. Impact Of Demonetisation On Currency To Gdp Ratio

The currency in circulation as on 29<sup>th</sup> March 2019 stood up at Rs.21.40 trillion, which is up by 60.2% from 13.35 trillion as of March 2017(the year in which demonetisation took place). The currency to GDP ratio as of March 2019 was 11.23% which was highest in three years. The currency to GDP ratio as of March 2017 and March 2018 was 8.69% and 10.70%. Hence the currency to GDP ratio has grown between March 2017 and 2019. The ratio of currency in circulation to GDP takes in account size of Indian economy. As an economy grows, the total amount of currency used in it also grows in absolute terms.

TABLE 4.8 Currency in circulation to GDP Ratio

Years	Currency-GDP Ratio
2009-10	12.30%
2010-11	12.20%
2011-12	12.20%
2012-13	12%
2013-14	11.60%
2014-15	11.60%
2015-16	12.20%
2016-17	8.69%
2017-18	10.70%
2018-19	11.23%

FIG 4.8 Graphical representation of currency in circulation to GDP ratio



- 1) *Interpretation:* From The above figure x-axis indicates years from 2009 to 2019. The currency in circulation has touched Rs. 8980.17lakh cr. as on 6<sup>th</sup> january2017 from the level of Rs.17977lakhcr as on 4<sup>th</sup> November 2016. In the financial year 2016-17 the CIC-GDP ratio was 8.69% which is quite low in comparison with the financial year 2015-16 where the ratio was 12.20%.

#### F. Automobile Industry

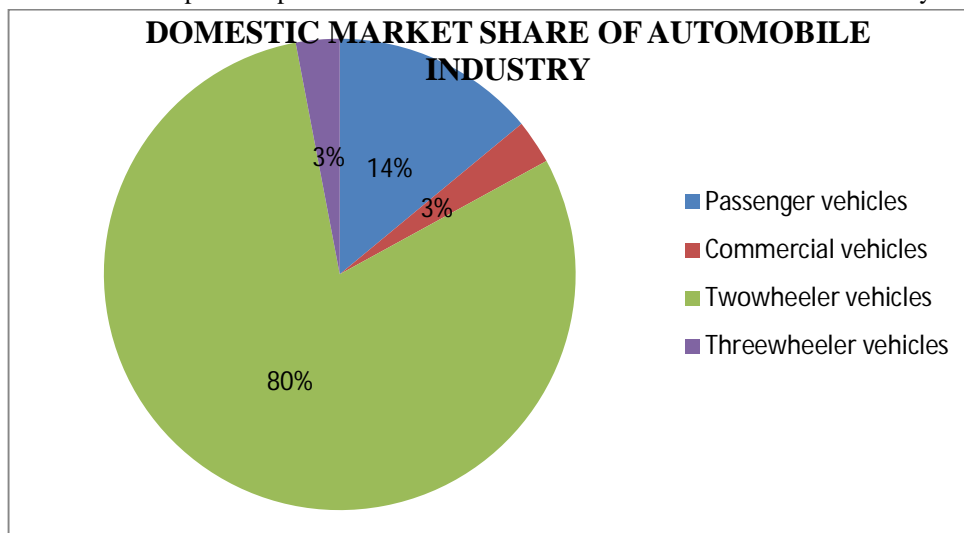
Indian automobile industry is seen as one of the booming industry in the world with an annual production of 23.37 million vehicles. The Indian automotive industry stood around US\$7 billion by 2021 with the growth rate of 10-15%. The industry was able to attract FDI worth US\$15.79 billion during April 2006-September2016.

The industry accounts for 7.1%of country's GDP. The industry production stood to 23,960,940 vehicles. It includes passenger vehicles, commercial wheelers, two wheelers and three wheelers. During April-March 2015 the production was increased to 24,358,047 vehicles with a recorded growth of 2.58%.

TABLE 3.1 Domestic market share of automobile industry

Passenger vehicles	14%
Commercial vehicles	3%
Two wheelers	80%
Three wheelers	3%

FIG 3.1 Graphical representation of domestic market share of automobile industry



As per the graph shown above 80% of share of two wheelers is the market leader in domestic market. The reason is more of the population consists of middle class people and youngsters. Passenger vehicles consist of 14% followed by commercial vehicles and three wheeler vehicles consist of 3%.

During 2010-2015 Passenger vehicles, commercial vehicles, three wheeler and two wheeler vehicles showed a growth of 6.89%, 13.77%, 18.79% and 16.60%. Two wheelers made a highest share of export at 69.4% in 2015, passenger vehicles accounted for 16.7% and three wheeler vehicles accounted for 11.1% exports in 2015. Various steps are being initiated by government and automobile companies to become an Indian leader by 2020.

#### G. Post Demonetisation

Demonetisation had an adverse impact on industry. Till October 2016 the sales were in growing percentage of 4.5% but sales started to decline after the announcement of demonetisation. The domestic sales declined by 5.5% and there was huge decline in three wheelers which was dropped by 25.9%.

TABLE 3.2 Domestic volume growth trends across segments in December 2016

Segment wise sales	December 2015	December 2016	Change (%)
Passenger vehicles	230959	227824	1.40%
Commercial vehicles	56840	53966	5.10%
Two wheelers	1167621	910235	22.00%
Three wheelers	46894	29904	36.20%

The table clearly shows that there was huge decline in the sales of all segments of vehicles after demonetisation as compared to 2015. The sale of passenger vehicle went down by 1.4%. The sharpest downfall is seen in the three wheelers and also sale of scooters has been lowered by 26.4% followed by motor cycles by 22.5%. Therefore from low price two wheelers to the luxury cars the whole industry has been affected.

#### H. Banking Sector

TABLE 3.4 Amount of deposits in PMJDY: Number of accounts (In Million)

Banks	As on 9 <sup>th</sup> November 2016 (Rs in cr.)	As on 1 <sup>st</sup> March 2017 (Rs in cr.)
Public sector banks	203.6	223
Regional rural banks	43.1	46.4
Private sector banks	8.4	9
Scheduled commercial banks	255.1	278



FIG: 3.3 Graphical representation of comparison of amount of deposits in PMJDY as on 9<sup>th</sup> November 2016 and on 1<sup>st</sup> March 2017

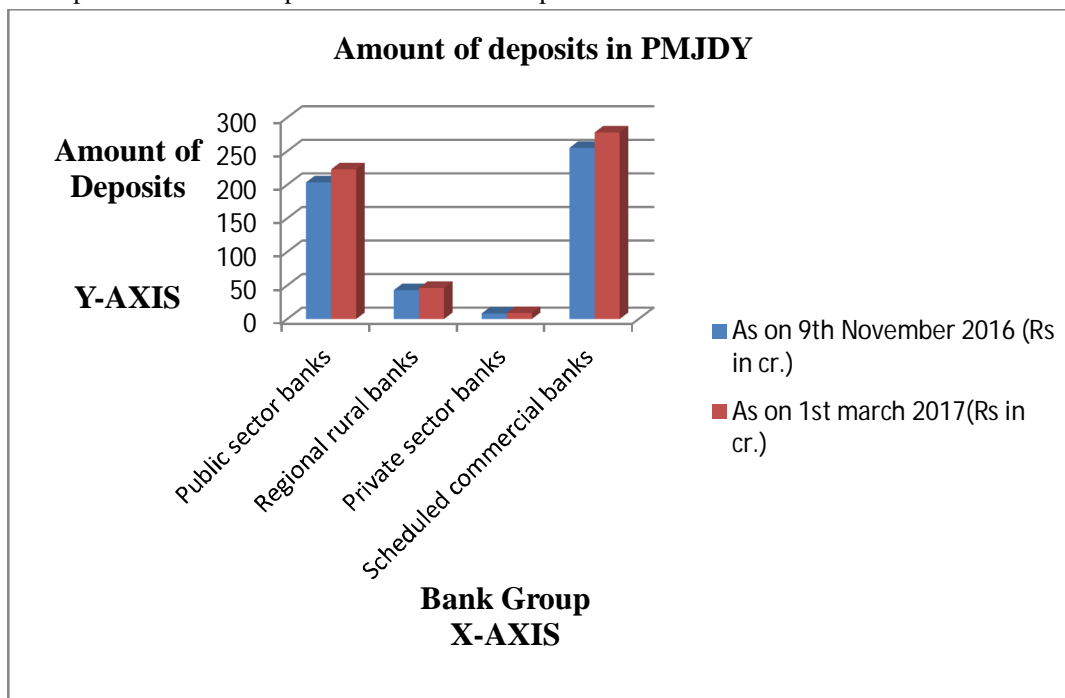


TABLE 3.5 Growth in percent of deposits of banks

Month	Growth in percent
April- October 2016	6.4%
October 2016	9.3%
November 2016	15.7%
December 2016	14.9%
January 2017	13.5%
February 2017	12.6%

#### IV. FINDINGS, &CONCLUSION

##### A. Findings

- 1) The impact of demonetisation on automobile industry was negative. The sale of passenger vehicles went down by 1.4%. The sharpest downfall is seen in three wheelers and in case of two wheelers by 22.5%.
- 2) The consumer markets industry was adversely impacted as sales went down by 20-25% in November 2016 and 10-12% in December 2016.
- 3) The pharmaceutical industry was less impacted as demand for medicines is inelastic. The drop down of sales is temporary.
- 4) Demonetisation severely hit agriculture industry as it requires workers who will be paid daily wages paid in cash as there is no availability of cash as all the transactions are based on cash.
- 5) There was a positive impact on banking sector as it enhanced deposits about Rs.6720 Billion in aggregate deposits in banking sector. It helped banks to increase their CASA ratio.
- 6) Venezuela demonetised its 100 Bolivar notes on 12<sup>th</sup> December 2016. The aim of demonetisation is to tackle transnational gangs and hyperinflation.
- 7) It demonetise its Dollar on 15<sup>th</sup> June 2015 and the primary reason of demonetisation was hyperinflation and to bring stability in financial markets.
- 8) Number of IT returns filed increased 24.7% in 2017 as compared to 9.9% in 2016.
- 9) Digital payments increased by 56% from 71.27cr transactions in October 2016 to 111.45cr transactions in May 2017.

- 10) According to centre for monitoring Indian economy (CMIE) the number of persons employed was 406.2 Million fell by 0.1% in 2017-2018 from 406.7 Million in 2016-2017.
- 11) The cost of printing bank notes escalated to Rs.7965cr in 2016-17 and Rs.4912cr in 2017-2018. The Indian Air Force was paid Rs.29.41cr to move banknotes after demonetisation.
- 12) Demonetisation has negative impact on inflation. The inflation has been reduced by 3.6% in 2017 from 4.5% in 2016.
- 13) The GDP growth rate fell to 7.17% in 2017 from 8.17% in 2016 because of less availability of cash in cash intensive industries in manufacturing and construction and short term disruptions in agriculture and all sectors
- 14) The digital payments like NEFT transactions increased to Rs.14182 Billion in September 2017 from Rs.8808 Billion in October 2017.
- 15) The combined effect of demonetisation and US presidential election, the stock market indices dropped down following the announcement.
- 16) The currency in circulation to GDP ratio was stood at 8.69% in 2016-17 as compared to 12.20% in 2015-16.

### B. Conclusion

The present study presents impact of demonetisation on Indian economy. The objective of demonetisation to cease black money and halt terror funding was not achieved. It has been around three years since government invalidated high denomination currency. Contrary to government's hope about 99.3% of demonetised currency made it back in to accounts. Even black money got exchanged and got legal during demonetisation period. The small and unorganised sector was badly hit by the measure as they lost their jobs and decrease in their wages. The demonetisation came as a blessing for e-wallet companies. The Modi government decision to demonetise old notes with new notes led to massive debates and created chaos among general public. Yet there has been a marginal improvement in direct tax collection. GDP of country slightly decreased in 2017 compared to 2016, demonetisation has negative impact on various sectors but all are short term effects. All these effects are solved when the new currency notes are widely circulated in the economy.

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