# Economics Project (2018-19)

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# Demonetisatio n & IT'S IMPACT on Indian **Economy**



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# **Certificate**

This is to certify that Master/Miss PANKAJ KUMAR is a student of class XII COMMERCE has successfully completed the research on the project title DEMONETISATION under the guidance and supervision of MR. SANTLAL KUMAR, PGT ECONOMICS, during session 2018-19 in partial fulfilment of Economics Project Work conducted by Central Board of Secondary Education (CBSE).

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**Principal** 

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# Demonetization



### **Meaning of Demonetisation:**

- Demonetisation is an act of cancelling the legal tender status of a currency unit in circulation.
- Anticipating positive changes on the liquidity structure as a whole, nations often adopt demonetisation policy as a measure to counterbalance the current economic condition.
- Countries across the globe have used Demonetisation at some or the other point to control situations such as inflation and to boost economy.
- In November, Indian government banned the high denomination notes of Rs.1000 and Rs.500 as move to curb counterfeiting and money laundering.

#### Why Demonetization?

- Generally, it is done to pull off or retire the old currency from the market and replace with new ones or with completely new notes/currency.
- In Indian perspective, we can see all these three scenarios; 1000 notes were retired, 500 were replaced with a new design and brand new notes of 200 brought to market.
- Like currency notes, even coins can be demonetized.

#### **Reasons for Demonetisation of Currency:**

- To fight corruption and crime (money laundering, tax evasion, bribery)
- To combat inflation
- To eradicate counterfeit (fake) currency
- To encourage cashless or less cash economy
- To stop terrorist funding which is generally done with black money

#### **Effects of Demonetization in India:**

- Yes, it affected whole India, each person rich or poor. There are two types of effect short term and long term.
- We saw panic in society, there was no money in ATMs, and the bank gave only minimal cash and for that to one need to stand in long line for hours.
- We saw huge politics over the issue. New channels were constantly debating over the topic all day long. (Remember 9:00 PM Primetime).
- People who had stashed money bought lands and gold. In short, each and every business sector and people from all walks of life affected by it.
- We will be writing a series of articles on the impact of demonetisation on the various business sector.
- We will provide information here shortly.

#### **Definition or Meaning of Demonetization in Indian languages:**

- It is also called as "Notebandi/नोटबंदी" in various Indian languages like Hindi, Marathi, Odiya, Punjabi etc.
- Actually, it is a more common word in India than demonetization.
- The real meaning ofit will be "Vimudrikaran/विमुद्रीकरण".

# India's history with demonetisation: From 1946 to 2016



- The whole country was taken aback when Prime Minister Narendra Modi on November 8 announced that the currencies in the denominations of Rs 500 and Rs 1,000 will be invalid post-midnight.
- However, the lower denomination –Rs 10, Rs 20, Rs 50, Rs 100 and coins –will be valid.
- He further announced that new notes of Rs 500 and Rs 2,000 would introduce shortly. Thus, giving millions of Indians a panic attack.
- Demonetisation has been implemented twice -1946 and 1978 in the past.



#### The first currency ban:

- In 1946, the currency note of Rs 1,000 and Rs 10,000 were removed from circulation.
- The ban really did not have much impact, as the currency of such higher denomination was not accessible to the common people.
- However, both the notes were reintroduced in 1954 with an additional introduction of Rs 5,000 currency.
- Rs 500 and Rs 1000 notes were introduce in 1934 and after four years in 1938, Rs 10,000 notes were introduce.





#### The second Currency Ban:

- That came in 1978; the then Prime Minister of India Morarji Desai announced the currency ban taking Rs 1000, Rs 5000 and Rs 10,000 out of circulation.
- The sole aim of the ban was to curb black money generation in the country.

#### Similarities in 1978 and 2016 ban:

- The note ban by Morarji Desai also aimed to drive away black money out of circulation in the economy.
- Hence, The High Denomination Bank Notes (Demonetisation) Act was implemented.
- Narendra Modi announced the currency ban is an address that was broadcasted across all news channels. Similarly, Desai announced the ban over the radio after which the banks were closed the following day. Both the affairs were kept confidential.

#### Differences in the ban:

- Unlike Modi, Desai didn't have the backing of the RBI Governor. The Governor I.G.
  Patel believed that the ban was implemented simply to immobilize the funds of the
  opposition party. Patel also believed that people never store black money in the form
  of currency for too long.
- It didn't have much effect on the people and affected only the privilege few. While the recent ban had shaken the whole country.
- Coming back to 2016, there is also a buzz that smaller denomination currency notes like Rs 50 and Rs 100 will also be replaced by incorporating new features and design. And that reminds us of an incident dating back to early 70s, when there were rumours of withdrawing Rs 100 note from circulation, and immediately hordes of people were seen rushing to banks to exchange their Rs 10 and Rs 20 currencies.

#### List of Countries that have tried Demonetisation before India

With the ban of Rs.500 and Rs.1000 currency and introduction of new notes, India is coping with demonetisation. The measure isn't new, however, as several other countries have embraced it in the past. Some met the purposes, whereas some failed miserably.

#### 1. NIGERIA

 During the government of MuhammaduBuhari in 1984, Nigeria introduced new currency and banned the old notes. However, the debt-ridden and inflation hit country did not take the change well and the economy collapsed.



#### 2. GHANA



- In 1982, Ghana ditched their 50 cedis note to tackle tax evasion and empty excess liquidity.
- This made the people of the country support the black market and they started investing in physical assets which obviously made the economy weak.

#### 3. PAKISTAN



- From December 2016, Pakistan will phase out the old notes as it will bring in new designs.
- Pakistan legally issued the tender a year and a half back, and therefore, the citizens had time to exchange the old notes and get newly designed notes.

#### 4. ZIMBABWE



- Zimbabwe used to have \$100,000,000,000,000 note. Yes, a one hundred trillion dollar note!
- The Zimbabwean economy went for a toss when President Robert Mugabe issued edicts to ban inflation through laughable value notes.
- After demonetisation, the value of trillion dollars dropped to \$0.5 dollar and were also put up on eBay.

#### 5. North Korea



- The demonetisation that happened in North Korea in 2010 left people with no food and shelter.
- Kim-Jong II introduced a reform that knocked off two zeros from the face value of the old currency in order to banish black market.

#### 6. Soviet Union



- Mikhail Gorbachev ordered to withdraw large-ruble bills from circulation to take over the black market.
- The move didn't go well with the citizens which resulted into a coup attempt which brought down his authority and the led to Soviet breakup.

#### 7. Australia

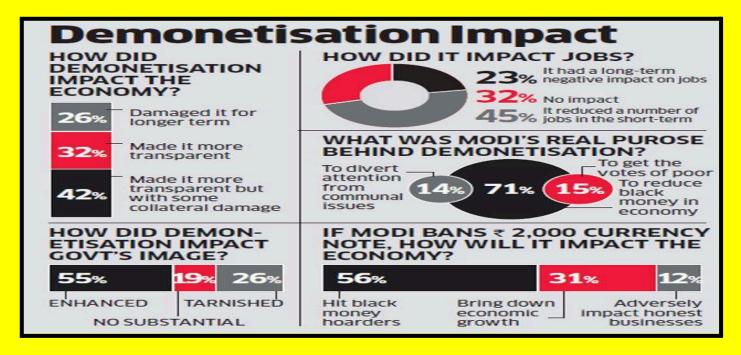


- Australia became the first country to release polymer (plastic) notes to stop widespread counterfeiting.
- Since the purpose was to replace paper with plastic and only the material changed, it did not had any side-effects on the economy.

#### 8. Myanmar



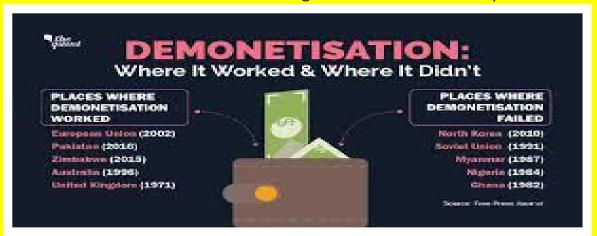
- In 1987, Myanmar's military invalidated around 80% value of money to curb black market.
- The decision led to economic disruption which in turn led to mass protests that killed many people.



#### IMPACT OF DEMONETISATION ON INDIAN ECONOMY

- Demonetisation, that sent a shockwave across the Indian economy, completes one month since its announcement on the midnight of November 9.
- To uproot the problems of corruption, black money, and counterfeiting, Prime Minister Narendra Modi orchestrated this master plan which has reportedly swept off a mammoth portion of India's monetary base.
- It is anticipated that this surgical strike on black money will also increase cashless transactions in the country and untie all knots in tax collection. But on the other hand, rural households and elder citizens have been worst hit due to the sudden monetary reform.
- The decision to scrap all Rs.1000 and Rs.500 notes have made it to headlines all over the world, attracting both positive and negative comments.
- In a country where 85% of transactions take place by cash, cancelling the legal tender character of two high denomination banknotes arises a lot of questions.
- The service sector in the country that depends mostly on cash transactions will be adversely hit because of Demonetisation.
- Not to mention, the consumption activity of India has come to a screeching halt. This
  drop in economic activity could last for a few months and as a result, GDP could fall
  significantly from the previous year's values.
- Even as country faces the greatest financial crunch of all times, some analysts predict the economic conditions to stabilize in a few quarters.
- An improved monsoon season in 2017 can favour agricultural economy of the nation, which in turn will add to the financial recovery as a whole.

 Economists also predict that the decision to scrap high-value currency notes will lead to GDP growth by 2%.



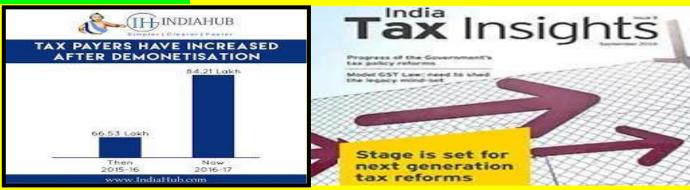
#### 1) ON GDP GROWTH:



- This is due to less availability of cash in cash-intensive sectors like manufacturing and real estate.
- Even the automobile industry which was growing rapidly earlier has seen a contraction in the October-December quarter of 2016.
- Purchasing power of consumers has been negatively affected due to cash not being readily available.
- We need to remember that Indian economy is largely cash driven with more than 90% transactions taking place in cash and digital transactions accounting for just the remaining 10 percent.
- Banks have also been focusing on the single task of deposit and withdrawals with the result that their **core function of issuing loans has been adversely affected**.
- Also current account customers, who are largely business owners, need large amounts of cash at short notice have not been able to access cash and credit owing to restrictions on withdrawals and inability of banks to focus on the task of issuing loans.



#### 2. ON TAX COMPLIANCE:



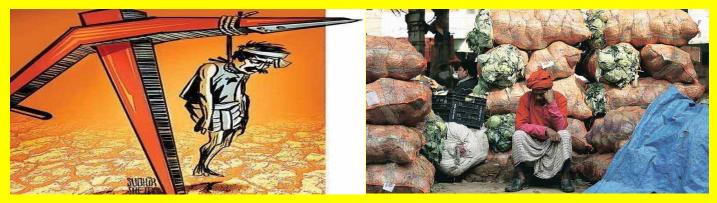
- India's tax-to-GDP ratio is quite low at 16.6% compared to other emerging economies. It is estimated that since more money, including black money, gets accounted for this will lead to better tax compliance owing to better targeting of income.
- The positive impact could be **lower tax rates as the tax base widens** and more people start paying taxes.
- The digital push of the government will also result in **higher indirect tax revenue** for the govt. in the form of service tax.
- Moreover businesses that under-reported their revenue earlier, will have to make proper disclosure, especially, of revenue received through digital or cashless means.

#### 3. ON SMALL AND MEDIUM ENTERPRISES:



- The small and medium-sized enterprise (SME) sector, as we understand, is a big chunk of the economy, contributing to eight percent of the GDP whilst employing more than 80 million people year on year.
- The labour wages in this sector are largely paid in cash and wages have been adversely affected by the demonetisation move.
- Unemployment has also been reported owing to decline in demand of SME goods as the purchasing power of the consumers has contracted in the short term.
- Other sectors within the SME space like restaurants and transport operators have also been negatively impacted since economic activity has declined and also due to the fact that there is high tendency in this segment to accept payments through cash only.
- Wholesale vegetable markets have been witnessing declining demand and prices of tomatoes and other food items have fallen drastically making it economically unviable for the farmers to produce these crops.

#### 4. ON AGRICULTURE:



- This is one sector where all transactions are in cash and, given the values involved, involve the higher denomination notes.
- The withdrawal of the old currency notes has put **pressure on the mandis**; farmers are having problems in selling their produce as both the parties have to agree on the mode of payment.
- Also since there is acute shortage of Rs 500 denomination notes presently, change for the high denomination Rs 2000 notes is not readily available with the vegetable and fruit vendors.
- This is also taking the buyers away from these vendors to big retail markets thus impacting the livelihood of the unorganised sector.

#### 5. ON EMPLOYMENT GENERATION:



- Since consumer demand has slowed and consequently industrial production has declined, employment generation has been adversely impacted by the currency demonetisation drive.
- Since the manufacturing sector which accounts for the highest employment of skilled and semi-skilled labourers, is witnessing slowdown in production; not only less jobs are being created but lay-offs are also taking place at a higher rate.
- As per this report, Industry is staring at temporary job losses due to demonetisation, as production gets hit, especially in labour-intensive sectors like textiles, garments, leather and jewellery.
- As many as 4 lakh people, mostly daily wagers, may have either lost their jobs or shunned work temporarily due to the lack of payment so far, and the number is only going to grow if the cash crunch persists.

#### 6. ON SMALL SAVINGS SCHEMES:

- Government has notified banks to not accept the discontinued currency notes for deposit in small saving schemes. However, no reasons have been specified for such a move by the competent authority.
- Small savings schemes are one of the most sustainable financial options which provide greater returns with low risk factor. Some of the popular savings schemes are KisanVikasPatra, SukanyaSamridhi, Post Office Savings Schemes, etc.





- For those without access to banks, cash transactions are the only practical means to meet their everyday requirements and for small scale investments.
- The statement also mentions that Post Office accounts have been excluded from the rule imposed on small savings schemes.

#### 7. ON BLACK MONEY:





- Fighting black money rampant in the economy was one of the foremost objectives of this entire exercise.
- Cash component forms just 6% of the black money in the Indian economy and currency demonetization will target just this 6% black income.
- If various reports are anything to go by, most of this black income has been converted into white by depositing it in Jan Dhan accounts, depositing in individuals own accounts by breaking into smaller chunks, by exchanging for new currency notes through hawala dealers, by buying last-minute luxury items like jewellery and high priced mobiles, by paying advance wages to employees etc.
- This is supported by the fact that almost the entire amount of Rs 14.18 lac crores in Rs 500 and Rs 1000 currency denominations lying with the public has returned to the banks.

- This implies that the dividend which the govt. has been hoping for by way of 2-3 lac crores not returning to the banking system (since it is black money and/or counterfeit currency) has turned out to be a mirage.
- Also as per various announcements by the govt. from time to time that deposits by housewives and those exempt from tax will not be scrutinized has provided a way out for black money hoarders to convert their money into white.
- However there have also been some positive impacts like one time removal of counterfeit or fake currency from the economic system.
- Some people argue that since black money has reduced, prices of black money intensive sectors like real estate and gold jewellery will go down. This remains to be seen.
- But demonetisation cannot and will not prevent future generation of black money since black money problem is more of a cultural mindset in India than a legal problem.
- It will also be easier for the corrupt and black money hoarders to deal in Rs 2000 currency notes as compared to Rs 500 and Rs 1000 notes since higher currency value can now be carried with greater ease.
- A total of **Rs 3185 crores in black money of which Rs 86 crores in new notes** has been seized by the Income Tax authorities since the launch of the demonetisation drive on 8th November.
- This implies that on the one hand black money is getting unearthed and on the other leakage of new currency notes is taking place; most probably through the banking system itself.

#### 8. ON BULLION MARKET:



- Demonetisation is expected to bring sharp changes in the prices of gold, and it is likely
  to start reflecting from the first quarter of 2017. At present, gold rates are not being
  announced by most of the jewellers due to dampening trade.
- Recently, government also announced the exemption limits on gold ornaments as the next giant move to curb black money. The notification comes within weeks after invalidation of Rs.500 and Rs.1000 notes.
- The following restrictions have been placed on the possession of gold:
  - A married woman in India cannot keep more than 500 grams of gold in custody.

- The limits for unmarried women are 250 grams.
- Male members of the family can keep only 100 grams of gold.
- The rule is not applicable for legitimate gold belongings.

#### 9. ON REAL ESTATE:





- The unorganized sector will be largely affected by the invalidation of the higher denomination currency notes. However, there won't be much of a change in the primary real estate market as property buyers make purchases either in the form of cheques or through loans.
- The impact of Demonetisation may be felt in secondary markets where most of the property dealings happen through cash.
- The currency reform is likely to yield positive results in the real estate sector with increased transparency in dealings. More opportunities can be expected from debt investment, private equity, and FDIs as well.

#### 10. ON EQUITY AND MUTUAL FUNDS:





- The effect of Demonetisation on equity funds is expected to be positive with more money entering the organized system of financial transactions.
- If cash flow across the nation is fully tracked, equities will strengthen significantly, as more people will invest in equity linked savings schemes to save on taxes.

#### 11. ON TAX TO GDP RATIO:



- In an economic survey conducted last year, the tax to GDP ratio of India was found to be at 16.6%, which is comparatively low when compared to emerging markets across the world. But with deposits drifting away from the unorganized zones and getting channelized to banks, the tax to GDP ratio is expected to rise drastically.
- Analysts also predict a significant rise in the tax collection percentage, as all financial transactions will be under the scanner. Owing to the same reasons, government may also reduce tax rates.

#### 12. ON JAN DHAN ACCOUNTS:



- At present, the contribution of Jan Dhan accounts in terms of deposits has been significantly low in the overall banking domain. But post Demonetisation, these idle accounts are witnessing a steep surge in deposits.
- Another positive side of the Demonetisation is that government's financial inclusion plan will gain momentum with a large number of people—including those from rural areas—opting for bank-based transactions.

#### 13. ON PRE-OWNED VEHICLES MARKET:



- Sales activities in the in used vehicle market is expected to decline following the Demonetisation move.
- This can adversely affect the original manufacturers to a certain degree, as prospective buyers may not find it easy to discard their old vehicles and go for a new one.

#### 14. ON INTEREST RATES:



- As a result of increased liquidity, RBI is likely to cut down the rates of interests applicable on fixed deposits, recurring deposits, and the like.
- Since banks are sure to accumulate huge deposits in the months that follow, the borrowing cost for Banks will be reduced.
- This benefit will be extended to customers in the form of lower interest rates on loan products.

#### 15. ON CEMENT AND STEEL INDUSTRY:



- A temporary decline in sales can be observed in the cement and steel sectors which are closely linked to real estate.
- A closer look at the situation reveals sizeable impact of Demonetisation on construction industry—daily wage earners being the worst sufferers.
- However, with an increase in bank deposits complementing the savings rate, the short-term difficulties will be outstripped soon.

#### 16. SHORT-TERM EFFECT ON GDP:





construction, gold, and other secondary markets will be reflected in GDP.

 But, the situation will be under control once cash flow is normalized in these areas of business.

#### 17. IMPACT ON TERROR FUNDING & FAKE CURRENCY:



witnessed a noticeable halt in the days following the demonetisation drive, including, stone pelting by misguided youths; the recent Nagrota attack shows that terrorism is continuing in the valley. Although the availability of cash has surely declined among the terror groups presently.

- The govt. also claimed that the new currency notes contain very high security features and are almost impossible to replicate. But this claim does not seem to be true since many stories of counterfeit currency have come to light since the note ban was announced on November 8<sup>th</sup>.
- However in the short term, circulation of fake currency has definitely slowed down considerably since the infrastructure set up to print fake currency notes in neighbouring countries like Pakistan has been rendered useless by the demonetisation drive.

#### 18. ON CASHLESS TRANSACTION:



demonetization exercise announced mid-way that making India a cashless or less cash economy was one of the important objectives of this demonetization drive.

- Towards this end, the Finance ministry, RBI and NITI Aayog announced a **host of** incentives to boost cashless transactions.
- This was also done to ease some of the problems that have resulted due to acute shortage of cash in the economy.

#### Some of these incentives include:

- No Service Tax on cashless transactions below Rs 2000.
- Providing cash backs ranging from 0.25-0.75 percent on various transactions like paying for fuel, government utility bills, stamp papers, property registrations etc.
- Encouraging use of Point-of-Sale (PoS) machines and mobile wallets like PayTM by businesses and individuals.
- Reducing self-assessment tax from 8% to 6% on businesses with annual turnover of less than Rs 2 crores.
- Announcing monthly jackpots for people using cashless transactions in government services.
- As a result, use of mobile wallets and cashless transactions, as a whole, has increased by about 300% since the launch of demonetisation exercise. However we need to remember that this 300% increase is against a very low base of digital transactions and most of this increase has been noticed in the urban areas where people have ready access to PoS machines, internet banking, and mobile wallets.
- Cashless transactions are still rarely used in rural areas and in the informal sector like road side vendors, small shops, buying seeds, wage payments etc.

#### 19. E-WALLETS GETTING A MAJOR PUSH:





- With the cancellation of Rs.500 and Rs.1000 currency notes, e-wallet companies such as Paytm, PayU India, Mobikwik, etc. are witnessing a sudden rise in their daily transactions.
- Demonetisation will also have an impact on the hiring needs and other business functions of these companies.
- Even app-based cab companies are launching their promotional materials to encourage cashless transactions.

# **Demonetisation: Success & failures**



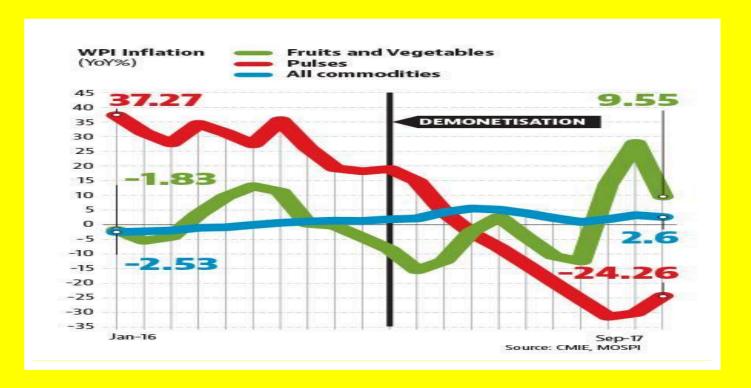
 After one and a half year of Demonetization, Indian Economy seems to have done away with all the negative impacts of Demonetization. The Economic Survey of India 2017-18, released just before the presentation of General Budget 2018 in Parliament has emphasized that all the negative impact of Demonetization of Rs.500/- and Rs.1000/- currency notes has ended. The Demonetization was announced as a surprise on November 8, 2016.

#### **Demonetisation: Success points**

India has marched on the path of digital transactions at a much faster pace. Key points describing success of demonetisation are:

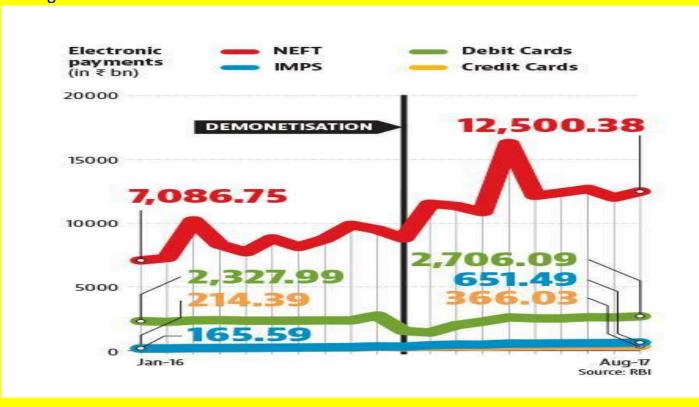
#### 1) Rate of Inflation goes down:

 Prices of commonly consumed commodities like Pulses, fruits, vegetables had gone down substantially post demonetization. Accordingly it brought down the rate of inflation during the months that followed demonetization. The chart below represents the impact of demonization on the commodities



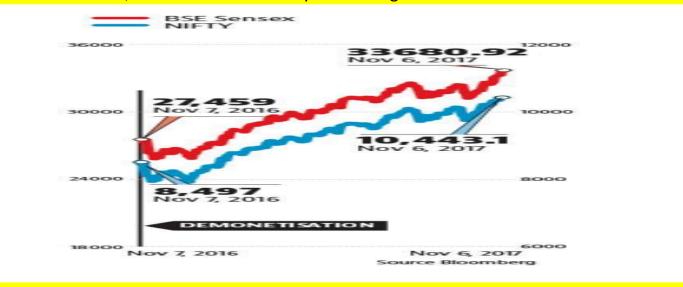
#### 2. India moves to cashless Economy:

- One of the key effects of Demonetization 2016 has been that more people have made digital payments part of their lives moving towards a cashless economy.
- The details of growth of such digital transactions since January 2016 to August 2017 reflect that NEFT transactions that involved Rs. 7086 bn increased to Rs.12500 bn; Debit cards transactions increased from Rs.2328 bn to Rs. 2700 bn; credit cards from Rs. 214 bn to Rs.366bn and the IMPS transaction which was not used by the people, got a share of Rs.651 bn.



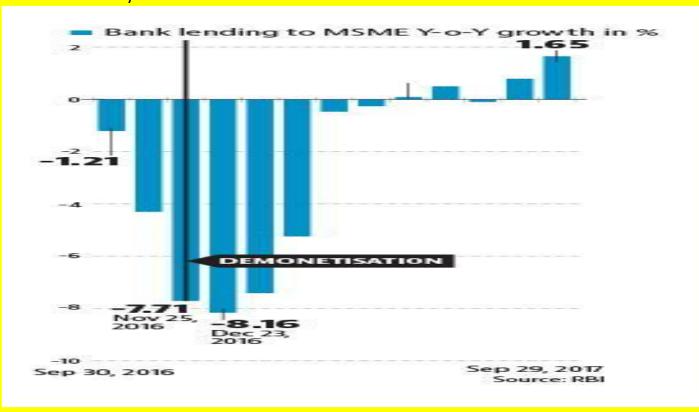
#### 3. Stock Market gets bullish:

• After demonetization stock market in India got bullish. While BSE index which was 27, 459 on November 7, 2016 rose to 33680.92 on November 6, 2017, the NSE rose from 8497 to 10,443. The data shared by Bloomberg reflect the trend.



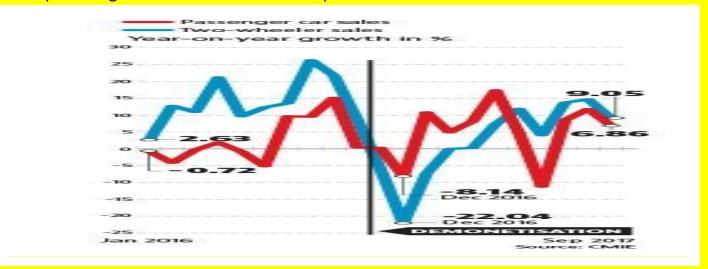
#### 5-Banks' lending increases for small businesses

- Banks' finance to small business was going down in pre-demonetization period. There was a negative growth even in short period of months. As on November 25, 2016, a negative growth of -7.71% was recorded in Banks' lending to small business.
- It went to -8.16% as on December 23, 2016. However, as on September 29, 2017 the Reserve Bank of India has reported a positive growth of 1.65% in lending to small business by the Banks.



#### 6..Automobile sales picked up

• Sale of 2 wheelers and 4 wheelers was showing a negative growth in 2016. In 2017 it went up substantially and recovered from the impact of negative growth to high positive growth as reflected in the report.



#### 7- More people use Mobile wallets than cash:

 Instead of using cash, more people have started using Mobile wallets for making payments for their regular needs. Even less educated people have learned and switched over to mobile transactions. The volume of transactions which was Rs.22.14 bn in January 2016, had gone up to Rs. 83.53bn in January 2017.

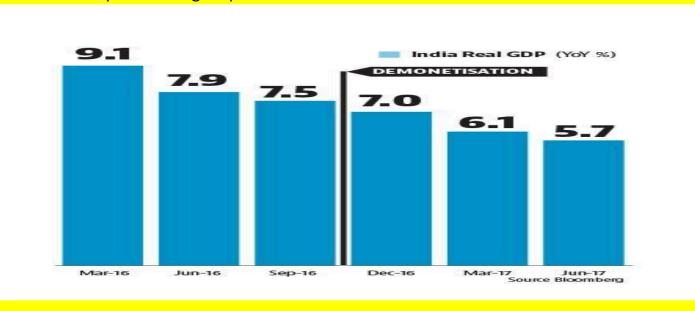


## **Failures of Demonetization**

#### 1. Economic Growth slows down:

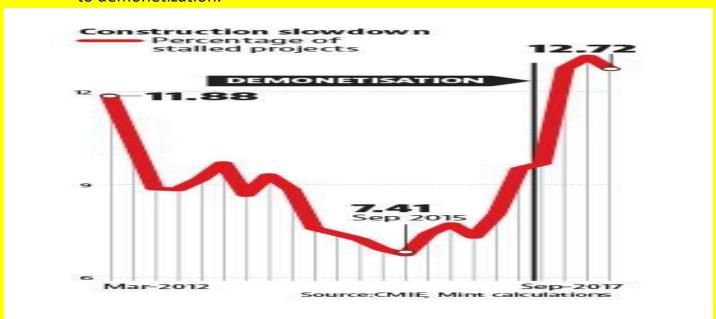
• Post demonetization growth of Indian Economy slowed down from 9.1% to 5.7% in less than one year.

 Month-wise GDP growth chart for the period March 2016 to September 2017 as shared by Bloomberg emphasizes this fact as detailed below:



#### 2. Realty sector bears the brunt:

- The triple decisions of demonetisation, RERA and GST resulted in a deceleration of new property launches.
- The supply of new housing units in the top-6 cities in India during the first three quarters of 2017 was down by around 60 per cent, compared with the corresponding period of 2016.
- With respect to property sales, the secondary market was obviously highly susceptible to demonetisation as compared to the primary market. Property transactions in the secondary sales and luxury housing segments tended to have significant cash components, and such sales have been hampered significantly due to demonetization.



# Impact of Demonetisation on different Economic variables

(Source: RBI Monthly Data, Ministry of Statistics and Programme Implementation, Society of Indian Automobile Manufacturers (Siam) Centre for Monitoring Indian Economy)

Variables	Year 2016	Year 2017
TOTAL PoS MACHINES	15.11 Lakh	29 Lakh
CREDIT CARDS	2.73 Crore	23.33 Crore
DEBIT CARDS	74 Crore	82 Crore
NO. OF DEBIT CARD TRANSACTIONS (@ATMs)	80.20 Crore	71.78 Crore
NO. OF DEBIT CARD TRANSACTIONS (@PoS)	14 Crore	26.52 Crore
M-WALLET	46.03 Lakh	72.72 Lakh
ITR FILING	22.6 Million	28.2 Million
INTEREST RATE	6.25	6:00
INDUSTRIAL OUTPUT	- 1.8%	+ 5.2%
MANUFACTURING	5.5%	3.1%
INFLATION (RETAIL)	4.2%	3.28%
DOMESTIC CAR SALES	2,78,428 Units	3,09,955 Units
INTEREST RATES (HOME LOANS)	9.10 - >10%	8.30 - >10%
STOCK MARKET (BSE SENSEX)	27,591	33,686
PETROL PRICE (# Average price of 4 metros)	69.7475 <b>₹</b> / L	72.4375 <b>₹</b> / L
UNEMPLOYMENT BLUES (2016-17)	40.65 Cr.	40.5 Cr.



- Demonetisation of old currency notes surely has had **some positive impact** like reducing the cash flow to terror organisations, dismantling of counterfeit currency infrastructure, better income tax and indirect taxation, boost to digital economy. However, it has come at a huge social and economic cost.
- Sandeep Dongre writes that demonetization costs are estimated at Rs 1.28 lakh crore to the economy for the 50-day time period till the end of depositing period of old currency. This includes a cost of Rs 17,000 crore towards the government and the RBI for implementing the demonetisation process in India.
- Demonetisation is a one-time event and will not have much long term effect. It
  alone is not sufficient to counter black money and corruption in the country; rather
  other measures are more crucial like bringing the offshore tax evaders to book whose
  names figure in the Panama papers, raid on benami properties, making donations to
  political parties open to public scrutiny and making it mandatory for all donations
  above Rs 2000 to political parties and religious places to be through digital means
  only.
- This entire exercise seemed more like a carpet bombing than a surgical strike where
  the vast majority of honest and law abiding citizens had to undergo terrible hardships
  in order to catch the few black sheep who have hoarded black money and who also
  managed to convert their black income into white.

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#### 1. Why did India demonetize the higher denomination currency notes?

The scheme was introduced by government to eliminate black money and counterfeiting. Reportedly, a surplus amount of higher denomination fake currency notes were in circulation which accounts for a rise in crime rate too. The Rs.1000 and Rs.500 notes made up 86% of the monetary base of India and removal of these currency units will bring down cases of money laundering and tax evasion.

#### 2. How to use the digital modes of payment?

You can simply login to your internet banking account and access a multitude of services online. Through internet banking you can transfer funds, shop online, pay bills, recharge your phone, and do a lot more. You can also download the mobile banking app of your bank to transact online with your smartphone.

#### 3. Does Demonetisation affect the notes issued prior to 2005?

Yes, even the Rs.500 and Rs.1000 notes issued prior to 2005 have lost its legal tender status after Demonetisation. These notes can now be exchanged at the RBI offices.

#### 4. What is the withdrawal limit on Jan Dhan Yojana accounts?

The withdrawal limits on JDY accounts have temporarily been set to Rs.10,000 by RBI. However, account holders who wish to withdraw more than the specified limit will have to furnish valid reasons in support of the same.

#### 5. Where can I exchange the banned currency notes?

After 25 November, 2016, the exchange of the currency notes at the bank counters is not permitted. You can deposit the specified bank notes into your accounts.

#### 6. How can I deposit cash without a bank account?

Banks have been directed to expedite account openings for the unbanked sections. You can visit any bank with the required documents and open a new account.