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“A Conceptual Study on Impact of Demonetization on Major Parameters.”

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ABSTRACT

The study is based on the Recent Central Govt. Reforms of Honorable Prime Minister Mr. Narendra Modi i.e. DEMOTIZATION to eradicate corruption, terrorism and to move towards cashless economy. The purpose of this research paper is to use recent facts and figures from Print and T.V media to summarize the pros and cons of Demonetization; This research paper will supply quantitative and qualitative data the outcome of Demonetization with a guide to predict the GDP Growth Rate and Tax Structure, Inflation, Interest rates for loans and deposits in commercial banks in future. And its overall impact on Indian Economy. The Research paper also tries to point out pros and cons of digital payments post demonization phase. The Research paper is an attempt to contribute theoretical highlights of demonization phase and in future what are the possible outcomes of the said reforms initiated by our Prime Minister Narendra Modi .The paper also tries to



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guide the Indians to practice digital payments to move towards cashless economy in coming years. The Paper stresses on corruption and terrorism both on prior demonetization and post demonetization phase so that the purpose of demonetization can be analyzed to judge whether the outcome is positive or negative. It is the central govt. dream to make India as a developed economy whether the mission is fulfilled or not.

Keywords: Demonetization, GDP, Reforms, Cashless Economy, Corruption and Terrorism.

1.1: INTRODUCTION:

Demonetisation is the act of stripping a currency unit of its status as legal tender. **The demonetisation of ₹500 and ₹1,000 banknotes was a policy enacted by the Government of India on 8 November 2016, ceasing the usage of all ₹500 (US\$7.40) and ₹1,000 (US\$15) banknotes of the Mahatma Gandhi Series as legal tender in India from 9 November 2016.**

The announcement was made by the Prime Minister of India Narendra Modi in an unscheduled live televised address at 20:00 Indian Standard Time (IST) on 8 November. In the announcement, Modi declared that use of all ₹500 and ₹1,000 banknotes of the Mahatma Gandhi Series would be invalid after midnight of that day, and announced the issuance of new ₹500 and ₹2,000 banknotes of the Mahatma Gandhi New Series in exchange for the old banknotes. However, the banknote demonetisation of ₹100, ₹50, ₹20, ₹10 and ₹5 of the Mahatma Gandhi Series and ₹2 and ₹1 remained legal tender and were unaffected by the policy.

The government claimed that the demonetisation was an effort to stop counterfeiting of the current banknotes allegedly used for funding terrorism, as well as a crack down on black money in the country. The move was also described as an effort to reduce corruption, the use of drugs, and smuggling.

However, in the days following the demonetisation, banks and ATMs across the country faced severe cash shortages with severe detrimental effects on a number of small businesses, agriculture, and transportation. People seeking to exchange their notes had to stand in lengthy queues, and several deaths were linked to the inconveniences caused due to the rush to exchange cash. Also, following the announcement, the BSE SENSEX and NIFTY 50 stock indices crashed for the next two days.

Initially, the move received support from several bankers as well as from some international commentators. It was heavily criticised by members of the opposition parties, leading to debates in both houses of parliament and triggering organised protests against the government in several places across India. As the cash shortages grew in the weeks following the move, the demonetisation was heavily criticised by prominent economists, such as Kaushik Basu, Paul Krugman, Amartya Sen and Steve Forbes.



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Source: RBI Website.

1.2: RESEARCH DESIGN:

a. Statement of the Problem: The Problem undertaken to study the **Impact of Demonetization on Indian Economy as a Banking Reforms-2016**. The Scope of the study consists of Outcome of Demonetization and impact of Demonetization on stock market which are evaluated on the basis of secondary data and some of the statistics tools. This paper uses qualitative and quantitative data to analyze the impact of Demonetization on functioning of the commercial banks.

b. Objectives of the Study:

- To understand the impact of Demonetization on Indian Economy.
- To evaluate the Quantitative and qualitative data this drives the functioning of banking operations.
- . To Evaluate the Outcome of Demonetization on various parameters.
- To Evaluate the Pros and Cons of Demonetization on Indian Economy.

c. Review of Literature:

1. http://economictimes.indiatimes.com/articleshow/56105382.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst studied to understand the current status of Impact of Demonetization on various Parameters like stock market etc.,
2. www.thehindu.com/business/.../RBI-data...demonetization/article16721039.ece. Studied to understand the current status of Impact of Demonetization Pros and Cons.,

a. Methodology:

Only secondary data is applicable to the study. The Secondary data is collected through News Papers, websites and the company brochures, comprehensive references were made from the previous research papers from journals, books and magazines and so on. Some Statistical tools are used to study the evaluation of qualitative and quantitative data from Secondary sources.

b. Limitations of the Study:

- Since the paper work is carried out for a very short period exhaustive findings could not be made.



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- Most of the data is taken from the Published sources and it is assumed to be true.

1.3: ANALYSIS AND INTERPRETATION:

Outcome of Demonetization:

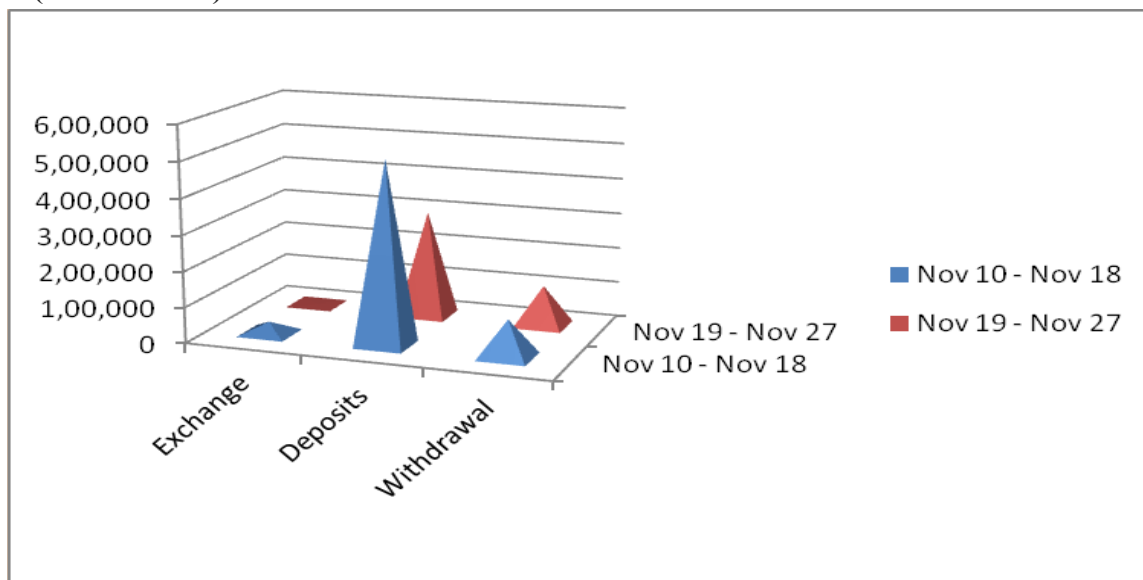
RBI data shows reduced cash exchange and bank deposits following demonetisation:

a. Banking activities related to demonetisation seems to have slumped in November and December 2016:

Table and Graph No 1.4: Data of RBI of Deposits and Exchange of Old currency Notes
(Rs. In Crores)

Dates	Exchange	Deposits	Withdrawal
Nov 10 - Nov 18	33,006	5,11,565	1,03,316
Nov 19 - Nov 27	942	2,99,468	1,13,301

(Source: RBI)



(Source: RBI)



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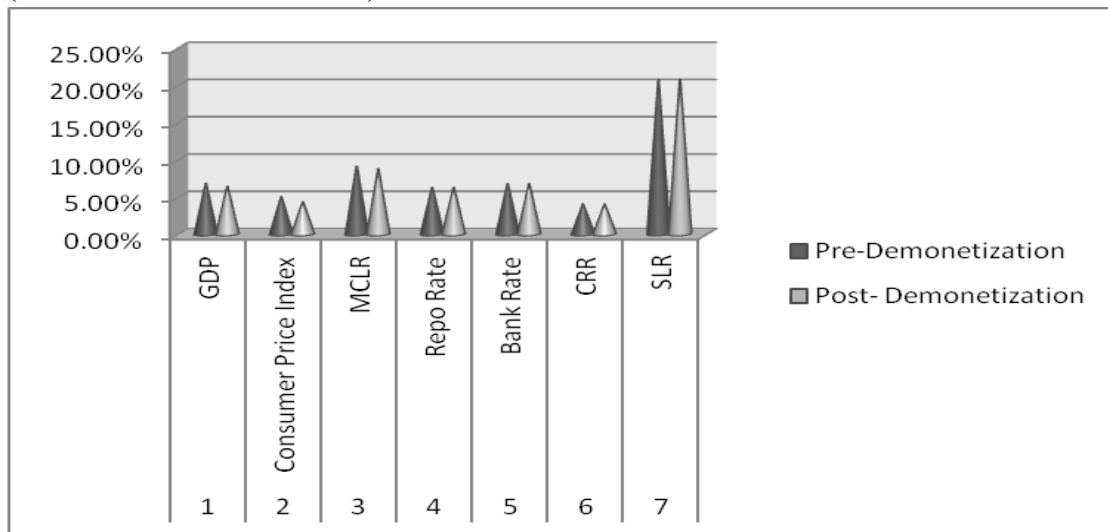
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Table and Graph No. 1.5: Showing Impact of Demonetisation on Interest rates And Inflation, GDP:

Sl.No	Parameters	Pre-Demonetization	Post-Demonetization
1.	GDP	6.8%	6.4%
2.	Inflation (Consumer Price Index)	5 to 6 %	4.3 %
3.	Interest Rates (Lending Rates- For Loans MCLR for Some Banks –Home loans)	9 To 9.10 %	8.55 To 8.75%
4.	Repo Rate	6.25 %	6.25%
5.	Bank Rate	6.75%	6.75%
6.	CRR	4.00%	4.00%
7.	SLR	20.75%	20.75%

(Source: RBI & the Hindu)



Inference: The above table and graph depicts the impact of demonetization on various parameters which clearly indicates the downward trend in GDP and Inflation specifically interest rates is a good sign for customers to borrow loans.

1.5 Impact of Demonetisation on Stock Market:

- a. Just a week after demonetization, the NSE Nifty50 registered a drop of 5.1% in daily closing price as opposed to what was there on November 8 (The day after when demonetization was announced). That was the worst close ever since February 2016.



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1.6: Some of the benefits of this movie are: (Pros)

- It will help the government to fight Black money, corruption, terrorism and counterfeit currency with one single decision.
- Arms smuggling, espionage and terrorist related activities will be choked due to lack of funding.
- Counterfeit currencies are being used for financing terrorism which is being run by the enemy in India. Now Govt has taken a bold move which enables them to fight counterfeit currency/terrorist funding activities.
- Card transactions will slowly replace the cash transactions in daily activities.
- It will be easy for the Government to track the money being exchanged as exchange can only be done by producing a valid government identity card like PAN, Aadhaar and Election Card from 10 to 24 November with a daily limit of Rs 4000. There is no limit on the amount as long as it is legal.

Source: <https://www.quora.com>

1.7: Cons:

- **Inconvenience to common people** who will start running to the nearby bank to exchange the 500 and 1000 currency notes.
- **Cost of replacing the 500 and 1000 Rs notes.** If all this additional money (a spectacular Rs.6.666 trillion) had to be printed using Rs.100 notes, it would cost RBI about Rs.11, 900 crore, which is more than a four-fold increase. This is without taking into consideration the increased costs of operating ATMs (since they would need to be refilled more often), and of handling money in general. **Scrapping Rs500, Rs1000 notes a costly idea**
- Very difficult for more than half the population who are not well versed with the card transactions.
- This move deeply impacts the working sections of society: drivers, maids, cooks, electricians, plumbers. Anybody who provides services in the informal sector and depends on monthly or bi-monthly cash payments.
- How do you expect a chai wallah to leave his business and stand in a queue to deposit these notes in bank?
- What will happen to the common man who finds out that the note he is having is a fake one? How is the Govt going to handle such situations?
- The small businesses will be affected at least in the shorter run.

Source: <https://www.quora.com>



1.8: SUMMARY OF FINDINGS AND RECOMMENDATIONS:

1.9: Findings:

1. Table No: 1.4 indicates that the deposits and exchanges of old higher demonetized Notes Rs.500 and Rs.1000 which clearly states that the deposits and exchanges are higher than withdrawal of notes.
2. Table No:1.5 indicates that the impact of demonization on major parameters like Interest rates, Inflation and GDP etc., clearly indicates that the Interest rates , Inflation and GDP has come down during post demonization.
3. Table No:1.6 Indicates that a week after demonetization, the NSE Nifty50 registered a drop of 5.1% in daily closing price as opposed to what was there on November 8 (The day after when demonetization was announced).

1.10: Recommendations:

1. Post Demonetization Phase saw in down fall of demand for goods and services. Therefore the people can move towards cashless transactions i.e., digital payments.
2. The downfall in Interest rates was a boost towards new customers to borrow more loans in future. And Inflation gone down is a positive factor for Indian Economy. GDP growth rate has come down which is too early to predict.
3. Impact of Demonetization on Stock market is volatile and temporary.

1.11: CONCLUSION

Demonetization Phase is a remarkable measure of Govt. of India since Independence to eradicate corruption, Black Money and terrorism. The Study undertaken by us reveals that the Impact of Demonetization can be measured in long term. The Parameters taken to study like Interest rates, GDP growth rate and Inflation and other's reveals that the outcome is positive in terms of Interest rates for new customers to borrow loans whereas GDP has come down after demonetization which is a adverse factor to the Indian economy. Finally the Inflation has come down during Post demonetization which is favorable.

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