



ASSESSING THE ECONOMIC IMPACT OF DEMONETISATION ON THE GENERAL POPULATION

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ABSTRACT

Demonetisation, a monetary policy tool, has been widely debated for its profound economic implications on the general population. This paper critically assesses the economic impact of India's 2016 demonetisation, which rendered 86% of the country's currency invalid overnight. While the policy aimed to curtail black money, counterfeiting, and terrorism financing, its effects rippled through various sectors, affecting the general population. This study examines the short- and long-term impacts on individuals and businesses, exploring shifts in economic activity, employment, and the informal economy.



I. INTRODUCTION

Demonetisation, the act of stripping a currency unit of its status as legal tender, has been a contentious and multifaceted economic policy tool used by various governments throughout history. In the Indian context, the sudden demonetisation announced on November 8, 2016, involved the invalidation of ₹500 and ₹1,000 notes, which represented approximately 86% of the cash in circulation. This monumental policy shift aimed to combat issues such as black money, counterfeit currency, and the financing of terrorism, while also seeking to encourage a transition toward a cashless economy. While the government touted the potential benefits of demonetisation—such as increased tax compliance, greater formalisation of the economy, and a reduction in illicit financial practices—the immediate aftermath was marked by widespread disruption, confusion, and hardship for the general population.

In a country like India, where a significant portion of economic activity occurs in the informal sector and is heavily reliant on cash transactions, the sudden removal of high-denomination currency notes created an unprecedented cash crunch. For many citizens, this meant long lines at banks and ATMs, a struggle to access basic necessities, and a drastic decline in their ability to conduct everyday transactions. The cash shortage had a ripple effect across various sectors, severely impacting small businesses and daily wage laborers, who rely primarily on cash for their livelihoods. As a result, the initial phase of demonetisation led to widespread criticism from economists, social activists, and the general public, who argued that the policy was poorly planned and executed, disproportionately affecting those who were already economically vulnerable.

The significance of studying the economic impact of demonetisation extends beyond the immediate consequences experienced by individuals and businesses. It opens up a broader dialogue about the implications of drastic monetary policy changes in a diverse economy. This study seeks to explore not only the short-term effects of demonetisation on income, employment, and consumption patterns but also the long-term shifts in financial behaviour and economic structure that have emerged in its wake. The informal sector, which employs a vast majority of the workforce in India, is particularly relevant in this discussion. These workers and businesses often operate outside the formal financial system, making them more susceptible to the shocks created by sudden policy changes.



Moreover, the policy's push towards digital payments and financial inclusion is another crucial aspect worth examining. While the government aimed to modernise the economy and reduce the dependency on cash, the reality is that a significant segment of the population lacked the necessary infrastructure, digital literacy, and access to banking services. This raises questions about whether the benefits of demonetisation have been equitably distributed across different socioeconomic strata. Understanding these dynamics is vital for policymakers aiming to craft more inclusive financial systems that empower all citizens, particularly the most disadvantaged.

Additionally, the psychological impact of demonetisation should not be overlooked. The sudden nature of the policy led to anxiety and uncertainty among the populace, as many were left scrambling to convert their invalid currency into usable cash or digital equivalents. The stress associated with the cash crunch, coupled with the fear of losing savings, created a climate of panic that further exacerbated the challenges faced by ordinary citizens. This psychological burden, especially on those already living on the financial edge, highlights the need for a comprehensive assessment of policy implications that considers not just the economic but also the social dimensions of such transformative changes.

In examining the economic impact of demonetisation, it is essential to employ a multi-dimensional approach that incorporates qualitative and quantitative analyses. By leveraging data on employment rates, consumption patterns, and shifts in the financial landscape, as well as drawing on testimonials and case studies from affected individuals and businesses, this study aims to present a holistic view of the policy's repercussions. The findings will contribute to the ongoing discourse surrounding monetary policy in India and serve as a reference point for future initiatives aimed at fostering economic growth, financial inclusion, and resilience in the face of sudden economic disruptions.

Ultimately, the exploration of demonetisation's economic impact is not merely an academic exercise; it is a critical inquiry into how such policies shape the lives of millions. Understanding the nuances of this policy's effects will aid in crafting more effective, equitable, and responsive economic strategies in the future. As India grapples with the legacy of demonetisation and seeks to carve a path towards sustainable development, the lessons learned from this experience can inform both current and future economic policies, ensuring



that they are better equipped to address the complexities of an evolving economic landscape.

In this study aims to assess the varied economic impacts of demonetisation on the general population, focusing on the challenges faced by individuals, the informal sector, and the broader implications for the Indian economy. By delving into the immediate and long-term effects of this significant policy change, we seek to provide insights that can guide policymakers and stakeholders in fostering a more inclusive and resilient economic environment for all citizens. As the discourse surrounding demonetisation continues to evolve, a thorough understanding of its consequences will be paramount in shaping the future of economic policy in India.

II. IMMEDIATE ECONOMIC IMPACT ON THE GENERAL POPULATION

1. **Cash Shortage:** With ₹500 and ₹1,000 notes suddenly rendered invalid, the general population faced an acute cash shortage. This created difficulties in day-to-day transactions, especially in a cash-dependent economy where many people, particularly in rural areas, lacked access to banking services and digital payments.
2. **Disruption of Daily Commerce:** Small businesses, street vendors, and daily wage workers, who rely heavily on cash transactions, were severely affected. Many businesses saw a significant decline in sales as consumers faced challenges in purchasing goods and services due to the cash crunch.
3. **Income Loss for Daily Wage Workers:** A large section of the workforce, particularly those in the informal sector, experienced immediate income loss. Construction workers, domestic helpers, and others in similar roles often could not be paid due to the unavailability of legal tender, leading to financial insecurity.
4. **Long Queues at Banks and ATMs:** Banks and ATMs were overwhelmed with people trying to exchange or deposit old currency notes, leading to long queues. This caused inconvenience, with some people even missing work to stand in line, further exacerbating their financial strain.



5. **Slowdown in Consumption:** Consumer spending dropped significantly as people conserved cash for essential needs. Non-essential sectors like retail, hospitality, and entertainment experienced a decline in revenue.
6. **Impact on Agriculture:** Farmers, particularly during the harvest season, faced difficulties as they could not sell their produce or purchase inputs due to the lack of cash. This disrupted agricultural supply chains and led to significant financial stress in rural areas.
7. **Transition to Digital Payments:** The government promoted digital transactions as a solution to the cash shortage, but many people, especially in rural and economically weaker sections, lacked the infrastructure or familiarity with digital platforms, further marginalizing them.

III. LONG-TERM ECONOMIC IMPACT ON THE GENERAL POPULATION

1. **Formalisation of the Economy:** One of the most significant long-term effects of demonetisation was the push towards formalising the Indian economy. With the sudden invalidation of high-denomination currency, many individuals and businesses that previously operated in the informal, cash-dominated sector were forced to enter the formal financial system. This led to an increase in bank account registrations, especially through initiatives like the Pradhan Mantri Jan Dhan Yojana (PMJDY). By integrating more people into the formal economy, the government aimed to improve tax compliance and reduce the shadow economy, though the actual increase in tax revenues has been debated.
2. **Rise in Digital Payments:** Demonetisation catalysed the growth of digital payment platforms, as cash availability remained tight for several months. Platforms like Paytm, Google Pay, and UPI (Unified Payments Interface) saw a surge in adoption, with millions of people learning to make digital transactions. In the long run, this shift has helped accelerate India's transition towards a less cash-dependent economy, although significant disparities remain between urban and rural areas in terms of digital infrastructure and literacy.



3. **Impact on Small Businesses and the Informal Sector:** While large businesses with access to formal banking systems adapted relatively quickly to demonetisation, small businesses and those in the informal sector faced longer-term challenges. Many small enterprises, particularly those reliant on cash transactions, experienced reduced customer demand and lower revenues for an extended period. Some businesses were unable to recover, leading to closures and job losses. The informal sector, which employs a significant portion of India's population, particularly in rural areas, has continued to feel the ripple effects of demonetisation, with limited capacity to transition fully to digital or formal systems.
4. **Job Losses and Employment Shifts:** Demonetisation contributed to job losses in sectors heavily reliant on cash, such as agriculture, small-scale manufacturing, and services. Daily wage workers, street vendors, and small traders bore the brunt of this, as many employers either reduced their workforce or delayed payments due to liquidity constraints. In the longer term, while some jobs returned, the employment landscape shifted, with greater demand for digitally skilled workers and formal sector employment. However, this has widened the gap between those with access to technology and formal financial services and those without.
5. **Income and Consumption Patterns:** The disruption caused by demonetisation led to shifts in income and consumption patterns over the long term. While high-income households were able to adjust by using digital payment methods or accessing credit, lower-income groups faced prolonged income losses and reduced consumption, particularly in the months following the policy announcement. Over time, as the economy stabilised, consumption patterns began to normalise, but the disparity in recovery between different income groups highlighted the uneven economic impact of demonetisation on the general population.
6. **Macroeconomic Stability:** On a macroeconomic level, demonetisation had mixed long-term effects. Initially, the policy caused a slowdown in economic growth, with GDP growth falling significantly in the quarters following the announcement. Over time, growth rates recovered, but the lasting effects of demonetisation on India's macroeconomic stability are still debated. The cash shortage caused deflationary



pressures in the short term, with lower inflation rates recorded due to reduced demand. However, as cash returned to circulation, inflationary pressures resumed. The long-term impact on investment was mixed, with some sectors experiencing delayed projects and reduced confidence due to the policy uncertainty.

IV. CONCLUSION

The economic impact of demonetisation on the general population was multifaceted, with both positive and negative outcomes. In the short term, the policy led to a severe cash shortage, disrupting daily transactions, employment, and business operations. The informal sector, which relies heavily on cash, was particularly hard-hit, with many individuals and businesses experiencing significant income losses. In the long term, demonetisation accelerated the formalisation of the economy, promoting digital payments and increasing financial inclusion. However, the benefits of these changes were unevenly distributed, with rural and low-income populations facing greater challenges in adapting to the new financial landscape.

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