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Deepika

Lecturer in Economics, Aarohi Model School, Jhiri, Sirsa, Haryana, India

Nisha

Research Scholar, Dept. of Economics, M.D.U, Rohtak, Haryana, India

Ratish Kumar

Lecturer in Geography, Aarohi Model School, Jhiri, Sirsa, Haryana, India

Lekh Raj

Lecturer in Commerce, Aarohi Model School, Hasanpur Bilonda, Mewat, Haryana, India

Correspondence

Deepika

Lecturer in Economics, Aarohi Model School, Jhiri, Sirsa, Haryana, India

Demonetization in India-A cleanliness drive against the black money

Deepika, Nisha, Ratish Kumar and Lekh Raj

Abstract

The current demonetization policy of Government of India (GOI) is the buzzing topic in every nook and corner of India. Demonetization is done for the overall economic development for India. There are various advantages and disadvantages of the demonetization drive. Recently the Indian government decided to demonetize the biggest denomination notes i.e. 500-1000 Rupees notes, this step has been declared as a master stroke for the Indian economy. There are multiple reasons why a country demonetizes its currency i.e. to check the inflation, to curb the corruption and to promote the cashless transactions. This paper elucidates the impact of such a move on the economy, its positive and negative effect on our economy.

Keywords: Demonetization, cashless transactions, corruption inflation

Introduction

“Demonetization is the withdrawal of a particular form of currency from circulation.” Through demonetization the old currency is replaced by the new currency or a currency circulation is blocked. Recently the Indian government decided to demonetize the biggest denomination notes i.e. 500-1000 Rupees notes. This is not the first time that India has demonetized its currency, earlier it was done in 1946 with the complete ban of Rs 1000 and Rs 10000 notes to deal with the unaccounted money i.e. black money. Second time it was done in 1978 by Government headed by Morarji Desai, when Rs 1000, Rs 5000 and Rs 10000 notes were demonetized. The main objective of this step is to unearth the black money, to curb corruption, counterfeit currency as well as terror financing. This step is considered as the biggest cleanliness drive against the black money in the history of Indian economy. GOI aims to make a cashless economy through financial inclusion measures like payment banks, card based transactions, online transactions, internet banking, NEFT, RTGS etc.

Objective of The Study: To study the impact of demonetization on Indian economy.

Data source: This research is descriptive in nature. Basically data from secondary sources are used for the preparation of this report. Secondary data are collected from different books, journals; articles, periodicals, research papers and RBI official website.

Impact of demonetization: On the midnight of 8th November, the Indian Government makes a sudden announcement to make the currency notes of INR 500 and 1,000 invalid in an attempt to deal with black money. The Indian government has introduced new 500 and 2,000 Rupees currency notes. This decision affected poor class, middle class and upper-class peoples in India. The dishonest upper class is the worst hit as they stored 500/1000 Rupees note in huge amount. According to data taken from Reserve bank of India official website 5,702 billion and 5,081 billion value notes of Rupees 500 and 1,000 respectively in circulation in 2014. There are some merits and demerits of Demonization in Indian economy. All though the impact of demonetization is for short term but it may lead India to form a stronger economy in long term.

Positive Impacts

Black Money Tracking: The main objective of demonetization is to curb black money. Curbing Black Money Demonetization has made it mandatory for every person in India to deposit their old currency in the banks and exchange them for new currency. This will make the cash hoarders to deposit their money in the account and make it accountable. Black money stored in the form of Rs 500 and Rs 1000 currency notes are taken out from the country. As projected by ICICI Securities the government's plan to scrap Rupees 500 and 1,000 notes will uncover up to 4.6 lakh crore in black money

Reduction in Illegal Activity: Banning high-value currency will halt illegal activity as the cash provided for such activities has no value now. Black money is usually used to fund the illegal activity, terrorism, and money laundering. Fake currency circulation will come to a halt in a single shot.

Jan Dhan Yojana: Now individuals are depositing enough cash in their Jan Dhan accounts which they were reluctant to do so a few days back. The amount deposited can be used for the betterment of the country

Terror Funding: Fake Indian Currency Notes (FICN) network will be ripped to pieces by the demonetization measures. Taking out 500 and 1000 rupee notes out of circulation will have an eternal impact on the syndicates producing FICN's, thus affecting the funding of terror networks in Jammu and Kashmir, North-eastern states.

Real Estate May See Significant Course Correction: The demonetization decision is expected to have extensive effects on real estate. Resale transactions in the real estate sector often have a significant cash module as it reduces the incidence of capital gains tax. Black money was responsible for the sharp gratitude of properties in metros; real estate prices may now see a sharp decline.

Moving Towards Digital Payments: Demonetization result in people implementing virtual wallets such as Paytm, Ola Money etc. The demand of online e-commerce business like Amazon, Flipkart, Myntra etc also increased after demonetization. Digital payment uses have increased. India is on the way to a more efficient and cashless economy.

Good Governance: Demonetization is done as a measure of good governance as suggested in the World Bank's Ease of Doing business report. This measure will increase the rankings of India in various indexes published by World Bank, World Economic Forum, United Nations and IMF etc. Demonetization will enhance the transparency levels in governance to a great extent by bringing all transactions in the formal banking sector.

Increased Tax Revenue: There is an incredible surge in tax collections for the past month. Property tax, water tax and other corporation levies in all states have risen considerably. The income tax collections have also risen rapidly. The provision of Income Tax department monitoring the accounts with more than 250000 rupees deposit and collecting tax with penalties will increase the tax revenue for the government.

Negative Impacts

Public Inconvenience: Public inconvenience is the major disadvantage of the demonetization measure. The move towards cashless transaction is good and only sections of the people are accustomed to this practice but majority of Indians have no knowledge about this cashless transaction.

Reduced Money Circulation: There is severe shortage of money circulation in the economy as a whole. Everyone has a single 2,000 rupee note and cannot transact with it in local shops and many other places where swipe machines are absent due to the problem of change. There is severe shortage of 100 rupee notes and with a single 2,000 rupee note, people find it very hard to find change.

ATM Calibration: Only 40 percent of the ATM machines have been calibrated to the new currency while the rest of the ATM machines are still put of order. This creates a queue in ATM machines and the cash gets exhausted within hours. ATM machines are not fully operational causing further inconvenience to the people. Most of the times, ATM machines are out of cash.

Corruption And Fraud: There are many instances of fraudulent activities like the banking personnel and the post office personnel illegally exchanging the old currency for new currency for a commission amount. The misuse of Jan Dan accounts to exchange black money is also revealed and restrictions are implied on such accounts.

The Cost To The Government: Replacing Rs 500 and 1,000 notes with other denominations could cost the Reserve Bank of India more than 12,000 crores, taking into account the notes in circulation and the cost incurred to print them.

Loss of Business: Due to demonetization, the business has been negatively affected as the vendors don't have enough change to return to their customers. Some of them are still accepting credits but still, people are spending less than they used.

GDP Growth: It is estimated that the demonetization-driven cash crunch will result in GDP growth crashing to 0.5% in the second half of the financial year 2016-17.

Not As Effective: Demonetization was mainly targeted at black money holders, but they have found a way around it by getting the currency exchanged from others for a commission of 20 to 40 percent.

Conclusion

Central government's recent decision to demonetise the high value currency is one of the major step towards the eradication of black money in India. The demonetization drive will affect some extent to the general public, but for larger interest of the country such decisions are inevitable. Also it may not curb black money fully, but definitely it has major impact in curbing black money to large extent. Overall, Demonetization is a bold step towards good governance and transparency.

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