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Dr. Rashmi Gujrati
Professor, GGSIP University
Dwarka, New Delhi, India

India: Demonetization of currency and its implications

Dr. Rashmi Gujrati

Abstract

“Demonetization is the removal of a specific method of currency from flow.”

Over demonetization the old currency is changed by the new currency or a money rotation is choked. There are numerous details why a country demonetizes its currency; certain explanations contain to pattern the increase, to control the exploitation and to endorse the cashless dealings.

Recently the Indian government certain to demonetize the major denomination notes i.e. 500-1000 Rupees notes, this stage has been professed as a master blow for the Indian economy by innumerable specialists. This is not the first period that India has demonetized its currency, former it was done in 1946 with the whole ban of Rs 1000 and Rs. 10000 notes to contract with the unaccounted money i.e. black money. Second time it was done in 1978 by Government controlled by Morarji Desai, when Rs 1000, Rs 5000 and Rs.10000 notes were demonetized. The main objective of this step is to excavate the black money, to control dishonesty, fake currency as well as horror funding. This step is measured as the biggest purity determination beside the black money in the history of Indian economy.

As per RBI, 87% dealings in India are currency transactions and this ambiguity is used by dishonored people to shape an equivalent economy with unaccounted money. This equivalent economy helps in terror funding which in opportunity baskets the progress and enlargement of country. Presently high-standards notes version for total value of 86% of the notes in movement in India. It is predictable that this step will assistance in falling the economic discrepancy of India and endorses the cashless economy in India which can be simply checked. There are many frauds of demonetization also, for occurrence; it generates terror between the common men. Local dealers and shopkeepers are facing problem. It is probable that it will disturb the SME sector in India.

Keywords: Demonetization, currency, cashless, occurrence, government, Indian

1. Introduction

Demonetization has been the buzz word since November 8th 2016 when our Prime Minister made the historic announcement about the decision to discontinue the 500 and 1000 rupee notes. This historic decision has affected almost all the sectors. Some have benefited while others have suffered. This paper intends to analyze the effects of demonetization on the major financial institutions and the Indian economy in general.

2. Objective of study

The aim of this study is to know about demonetization and what was the effect of demonetization on society.

To initiatives to boost the economy and promote entrepreneurship among Indians.

- Digital India, startup India, standup India, these all needs money, which bank don't have.
- Shortage of money leads to economy crisis or may India's economy lead to bankruptcy.
- To leads to downfall of Gov.

3. Research methodology

The present study is based on secondary study. The data was collected through Journals, books, magazines and internet, Newspaper etc.

4. Literature Review

Demonetization of currency means cutoff of the particular currency from movement and substituting it with a new currency. In the current setting it is the prohibition of the 500 and 1000 denomination currency notes as a lawful affectionate.

Correspondence
Dr. Rashmi Gujrati
Professor, GGSIP University
Dwarka, New Delhi, India

The government's stated unbiased behind the demonetization policy are as follows; first, it is an effort to make India exploitation free. Second it is done to control black money, third to resistor rising price rise, fourth to stay funds flow to unlawful activity, fifth to make people responsible for every rupee they have and pay income tax return. Finally, it is an effort to make a cashless society and create a Digital India.

There is a circumstantial to the current choice of demonetization of 500 and 1000 rupee notes. The government has reserved few steps in this direction abundant before its November 8, 2016 declaration.

As a first step the government had advised people to generate bank accounts under Jan Dhan Yojana. They were requested to credit all the money in their Jan Dhan accounts and do their future deal through banking approaches only.

The second step that the government started was a tax statement of the income and had given October 30, 2016 deadline for this resolution. Through this method, the government was bright to wipe up a huge amount of implicit income.

Nevertheless, there were numerous who still saved the black money, and in order to challenge them; the government proclaimed the demonetization of 500 and 1000 currency notes.

The demonetization policy is actuality seen as a financial improvement in the country but this verdict is anxious with its own merits and demerits.

5. Impact of demonetization in India

There is currently a lot of discussion trendy on how the government's demonetization transfer and Trump's triumph will influence the real estate sector. The NIFTY Realty Index fell by almost 12% as a replication, purely on emotion. While bellwethers are intimating at dark days fast, these doubts can at best be called groundless when it comes to the Indian real estate business.

i. Commercial real estate: There will be a lowest impact on office / industrial rental and dealings, given that cash mechanisms do not play a important role in such dealings.

ii. Residential real estate: The primary sales section is mainly prejudiced by home finance players, and contracts incline to be enabled in a see-through manner. This section will, consequently, see at finest a partial impact in the bigger cities, though some tier 2 and tier 3 cities where cash mechanisms have been an issue even in crucial sales will see a business crisis. The secondary or resale market will, however, surely be wedged, since this section does see the connection of cash constituent.

iii. Real estate investment markets: Projects could get strained as casual sources of capital may not be obtainable. This, in detail, curses more chances for recognized capital. FDI, private equity and debt companies will unexpectedly find the bazaar even more see-through and good-looking. Furthermore, banks could start subsidy land transactions, thereby slowing land prices.

iv. Retail real estate: Retailers could see some influence on their business in the short-to-medium period due to condensed cash transactions. The amenity segment is likely to be hit because of the factually high occurrence of cash

receipt. Though, credit / debit cards and e-Wallets should come to the release. Overall, the domestic ingesting story remains complete, with no threat to the general asset and growth of the Indian retail industry.

v. Land sales: Where land transactions have been trendy in the kingdom of joint ventures, joint development or corporate divestments, will see very little influence of the demonetization move. All of these are quite institutionalized, with little or no cash participation. However, those booming out direct land contracts will doubtlessly suffer - particularly when it comes to agricultural land transactions, which tend to involve substantial cash contribution.

vi. Developers: There will be negligible impact on large established players with a solid product and governance outline. Sales, mostly driven by the salaried class or depositors with limited cash participation would not hurt. Smaller developers are reasonably very worried right now because many of them have be contingent on cash communications. We are very probable to see a clean-up of non-serious companies due to this 'surgical strike' on the similar economy. The impact of RERA wills additional correction the industry, which will be decent for its fitness in the long term.

6. Demonetization of Currency - Merits and Demerits

Demonetization of currency incomes break of the specific currency from movement and substituting it with a new currency. In the present situation it is the prohibition of the 500 and 1000 denomination currency notes as a lawful affectionate. The government's specified impartial behind the demonetization strategy are as follows; first, it is an effort to make India corruption free. Second it is complete to control black money, third to switch rising price rise, fourth to stop reserves flow to unlawful motion, fifth to make people responsible for each rupee they have and pay income tax return. Finally, it is an effort to make a cashless civilization and generate a Digital India. There is a circumstantial to the current conclusion of demonetization of 500 and 1000 rupee notes.

The government has engaged few steps in this track much before its November 8, 2016 notice.

As a first step the government had advised people to generate bank accounts under Jan Dhan Yojana. They were requested to credit all the money in their Jan Dhan accounts and do their upcoming deal through banking systems only.

The second step that the government started was a tax assertion of the income and consumed given October 30, 2016 deadline for this resolution. Over this method, the government was talented to wipe up an enormous amount of unspoken income.

Though, there were numerous who still saved the black money, and in instruction to challenge them; the government proclaimed the demonetization of 500 and 1000 currency notes. The demonetization strategy is being seen as a monetary reform in the country but this decision is anxious with its own merits and demerits.

7. Merits of Demonetization

The demonetization strategy will help India to develop corruption-free. Those indulging in taking inducement will catchphrase from unethical perform as it will be solid for

them to keep their unaccounted cash. This move will help the government to path the black money. Those persons who must unaccounted cash are now obligatory to show income and submit PAN for any valid monetary dealings. The government can grow income tax return for the revenue on which tax has not been compensated. The change will stop finance to the unlawful activities that are flourishing due to unaccounted demonetization policy will strength people to pay income tax returns. Most of the people who have been beating their income are now involuntary to come forward to announce their income and pay tax on the same.

Even however deposits up to Rs 2.5 lakh will not come below Income tax inspection, people are compulsory to submit PAN for any deposit of above Rs 50,000 in cash. This will help the income tax department to pathway entities with high denominations currency. The eventual objective is to make India a cashless society. All the financial transaction has to be through the banking methods and individuals have to be responsible for each currency they own. It is a huge step towards the vision of making a digital India. If these are the merits, there are demerits of this policy as well.

8. Demerits of Demonetization

The declaration of the demonization of the money has produced huge troublesomeness to the people. They were running to the banks to conversation, deposit or remove notes. The sudden proclamation has made the condition disordered. Displeasures were consecutively high among the crowds as there was a postponement in the circulation of new currency.

It has extremely affected business. Owing to the cash crisis, the whole economy has been made to come to a standstill.

Many poor daily wage labors are port with no works and their everyday pay has stopped because owners are incapable to pay their daily income.

The government is resulting it hard to device this strategy. It has to tolerate the cost of production of the new currency notes. It is also discovery it challenging to put new currency into exchange. The 2000 rupees note is a burden on the people as no one likes to do deal with such high value currency. Some detractors reason it will only help persons to use black money more simply in upcoming. Further, numerous people have secretly rejected the demonetized currency notes and this is a damage to the country's economy.

9. Long-term goals of Demonetization

9.1 Surgical Strike on the parallel black economy: This is the clearest one. India has a huge similar black economy which the government can't tax and which procedures an island away from the main economy. Nobody knows the careful figure but it has been projected to be in the range tens of thousands of crores of Rupees in the previous to lakhs of crores today. You can be undisputable that a good mass of this will come into the main economy. It is a phenomenal task to combine the two streams of white and black money and a great commencement has already taken place.

9.2 Make the corrupt lose their money: You may have overheard of so many cheats in the past fluctuating from Bofors to the one lakh crore plus 2G and Coalgate. A simple question. How much of bribe money has been improved?

Microscopic one must say. Well this is for the first time that the corrupt are dropping their money in large numbers. Huge bags of money are being burnt, thrown or caught. Some of it is also permeating down as commission for the poor who are renovating the old money into new, so it's an unpredicted benefit for them too. You may recollect that earlier also the recent tax forgiveness scheme yielded tens of thousands of crore Rupees. The accumulators of black money will always be wary in the future.

9.3 Get everyone to have a bank account: The bank scheme for the poor under the UPA was a silent matter but it really chosen up under Modi's Pradhan Mantri Jan Dhan Yojana. This is alternative push towards that direction. Money placed after Demonetization has been remarkable. Moreover if you had your own bank account, you could withdraw Rs 24,000 in one stroke in comparatively shorter lines. Those without a bank account actually had to fight to change their old cash. This is another arrangement that pushes more and more Indian citizens into the investment system and this is precisely what the government wants.

9.4 Get every citizen in India to be monitored online: A cashless economy is not just appropriate for citizens, but also for the administration to display. The government wants each and every agreement in India to be online so it can be easily followed and taxed. Credit card and net banking practice is up; debit card transactions have flew while PayTM has hit a virtual money-spinner. This is a huge step onward in India flattering a cashless economy. Some may protest that Big Brother is watching, but like it or not, this is the future. Imagine many more Modi schemes which has push ordinary citizens online. Of course all this has rendered ineffective if we don't become a Broadband Nation soon.

9.5 Checking of counterfeit notes: The Rs 500 note came out in 1997 and the Rs 1000 one in 2000. After 9/11 Pakistan arrived into a new company with America and they observed the other way as our arch opponent set up a grand forging operation. However now fake notes have been detached from the system and new forgeries will be difficult. Pakistan is opposite failure. Incoming US President Donald Trump is not that promising towards Pakistan and they won't be able to operate with license. Moreover the new notes are much more difficult to fake. It was none other than Babasaheb Ambedkar, the father of the India's economy after Independence, who said that notes should be changed every 10 years.

9.6 Crackdown on terrorism and Naxalism: It is an open underground that both terrorism and Naxalism run on fake notes coupled with black money. They have been strictly hit as their funds have dried up. They are presently down and now is the casual to land a critical blow and finish off these hazards once and for all.

9.7 Change the mindset of everyone: Since Independence, we have led a philosophical "chalta hai" policy. Dishonesty can't go. The black money economy can't be hit. And so on. That altered overnight. Now the citizens of India know that Modi is thoughtful and any other governments too can blow down if they certainly want to. More and more people will indicate to come onto the white money stream to play it safe.

9.8 Keep everyone on their toes: Modi has been coming out with a slide of schemes after he became Prime Minister and this one was a Surgical Strike. What next? Already there is a buzz that the real estate industry will be battered. People are also predicting that the Rs 2000 note itself may be Demonetized in the future. Then there were the reports of the high worth note having GPS following. That's not possible because the bank note doesn't have a power basis. However technology is there for notes to be RFID. RFID technology can be entrenched into a currency note. That means that if you have a heap of high value notes, they can be noticed with an RFID reader. The long variety ones can do so at a distance of 100 metres. So the tax man can stand outside your home and notice your notes! However all this is very luxurious and may principal to privacy issues and misappropriation and hence seems improbable, but you never can forecast the future!

9.9 Boost the economy: For one a good quantity of black money will make its method into the white economy and that will only increase the latter. Then with people burning their notes and fake ones being taken out of the system, the value of the Rupee will become stronger. The more the notes there are in the market, the higher the increase. If bad notes are taken out of the market, prices will fall and the

Rupee's buying power will slightly increase. The online industry has also conventional a huge boost.

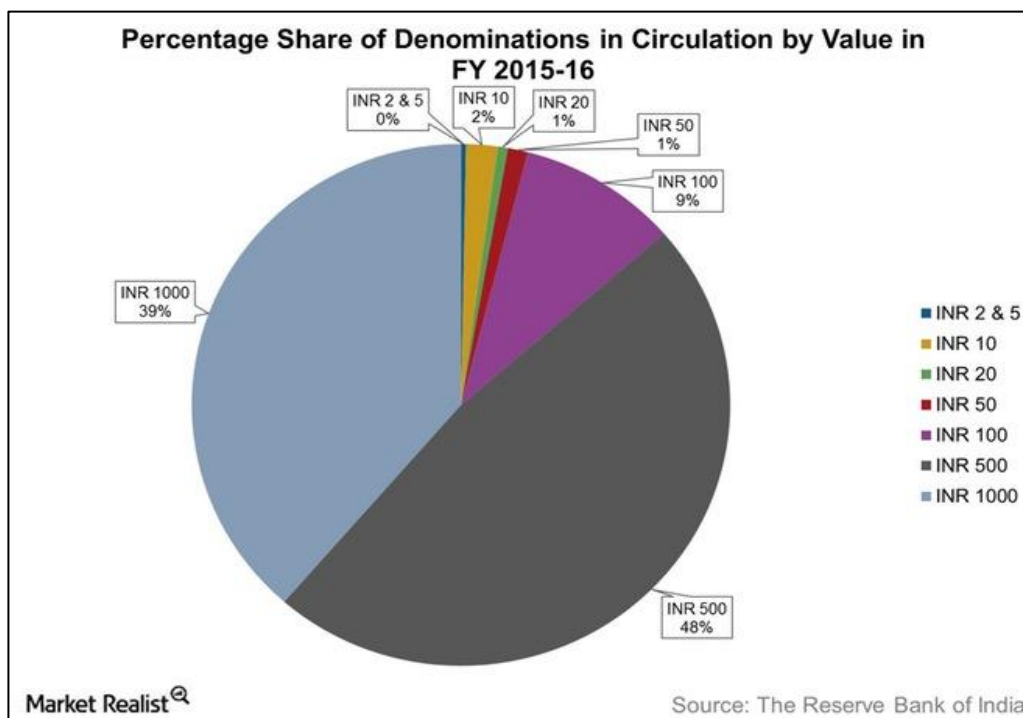
9.10. Crack down on black political campaigning: It is an open secret that most of the political parties use black money for election demonstration all over India. It has been very problematic to blow down. In fact in some areas, political parties openly issue Rs 500 and Rs 1000 notes. Well the timing of the current Demonetization couldn't be more flawless.

10. Why India Demonetized 2 Currency Notes

10.1 Indian government's surprise

In an address to the nation on November 8, India's Prime Minister, Narendra Modi, declared that the two main denomination currency notes—the 500 rupee note and the 1,000 rupee note—won't remain lawful tender. The notes were demonetized at nighttime on November 8. The move proposed to control black money in the financial system. Black money is one of the issues property back the economy.

The demonetization was a surprise. Since the declaration, the media discussed the pros and cons for consumers and the banking system (HDB) (IBN).



10.2 Lion's share put out of circulation

According to the RBI's (Reserve Bank of India) Annual Report for April 2015 to March 2016, the value of the currency notes at the end of March 2016 was 16.42 trillion Indian rupees. The 500 rupee and 1,000 rupee currency notes shaped 86.4% of the value. In one upset, the government removed 86.4% of the currency in movement by value. In relations of volume, the currency notes of these two denominations shaped 24.4% of a total 90.27 billion pieces.

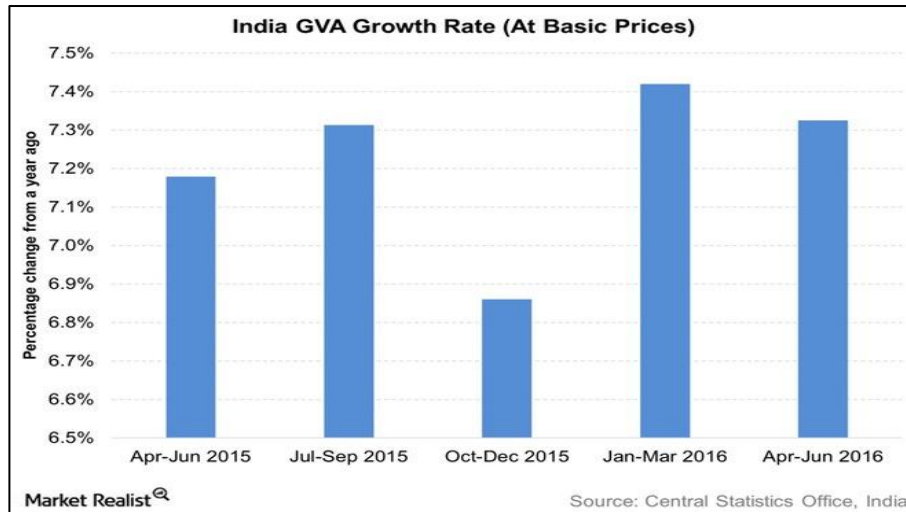
Also, RBI data presented that as of March 2016, 632,926 currency notes were fake—known as an FICN (Fake Indian Currency Note). As a amount of NIC (Notes in Circulation), the 1,000 rupee and 500 rupee notes were the uppermost.

Abolishing these FICNs was also part of the demonetization move.

11. How Could Demonetization Impact the Indian Economy?

11.1 Demonetization will hit the economy

The demonetization of the 500 rupee note and the 1,000 rupee note—the two uppermost currency denominations obtainable in India has likely hit the economy firm in the short term. The amazement move is predictable to routine the feeding activity in the Indian economy to a computer-generated halt. The service sector, which dominates economic activity and includes a substantial chunk of cash communications, has likely been hit the hardest.



11.2 India's economic growth

Growth in the Indian economy continued solid in the quarter from April to June 2016 (the latest available). In India, a financial year begins in April and ends in March of the following year. The before mentioned quarter is the first quarter of fiscal 2016–2017. During that period, the GDP (gross domestic product) rose 7.1%, while the GVA (gross value added) rose 7.3%. The association between the GDP and GVA is:

$$\text{GDP} = \text{GVA} + \text{taxes on products} - \text{subsidies on products}$$

The base year for calculating the GVA is 2011–2012.

The fall in economic action due to demonetization could last from two to three quarters. As a result, GDP and GVA growth in the quarters from September to December 2016 and January to March 2017 could be meaningfully lower than previous years. Some recoil back should be seen in the first quarter of fiscal 2017–2018. In the medium term, the Indian economy can grow significantly after limitation the debilitation caused by fake money and an increase in economic activity. A fall in optional feasting will hurt companies operating in this space (TTM) (VEDL). However, a rise in tax flow and lower interest rates, are predictable to help the Indian economy (PIN) (EPI) (INDA) grow stronger

12. Conclusion

Economists are demanding in citation out many extra merits and demerit of this strategy. The government is saying that there are only compensations of demonetization strategy and this will be understood in the long term. Former Prime Minister Man Mohan Singh who is a noted economist, previous RBI governor and previous Finance Minister of the country, calls the demonetization move as an 'organized wealth and legal plunder'.

Though, if we associate the merits verses demerits, it will be harmless to accomplish that the former overshadows the last. Even however there is sorrow and anguish amid the crowd's right at the instant but the forecast is that its welfares will be understood in the long run.

The government is attractive all the essential steps and movements to meet the currency demand and soon the experimental and harms of the people will be over with the flat current of the new currency.

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