

## **Demonetisation and its Impact on Indian Economy**

Deepak Pralhad Pate  
M.com , RSM Latur

### **Abstract**

Demonetization of currency means discontinuity of the particular currency from circulation and replacing it with a new currency in the context of recent demonetization in India it is the banning of the 500 and 1000 denomination currency notes by the government. The government's stated objective behind the demonetization policy to make India corruption free, to restraint black money, control inflation, stop funds flow to illegal activities, make people accountable for every rupees they possess and to regulate the tax evasion, make a less cash society and create a digital India.

### **Introduction:-**

Evening of the 8 November 2016 India's prime minister Narendra Modi made an announcement that surprised the nation: from midnight onwards, the country's two largest-denomination notes, worth 500 and 1000 Rupees, would be "demonetised", or withdrawn from use. In their place, a redesigned 500 rupee note and a new 2000 rupee note would be introduced. According to Indian government the policy had three goals: tackling corruption, undermining counterfeiters and punishing hoarders of undeclared income, popularly referred to as "black money". While communications regarding the rationale behind this policy were limited a key issue this paper seeks to address government of India Hilted that "the magnitude of cash in circulation is directly linked to the level of corruption". What this paper is not is an assessment of the impact of demonetisation on the Indian economy or the spread of corrupt practices. More time needs to pass and sufficient data gathered for such an analysis. There are other aspects we cannot cover in the depth they deserve within the scope of this paper, including legal debates surrounding the making and implementation of demonetisation, the role of anti-corruption policies in Indian electoral politics or the relationship between cash and corruption in India and elsewhere.

### **Meaning:-**

Demonetization is a process of stripping a currency unit of its status as a legal tender. In simple words, when the government demonetized the 500 and 1000 rupees notes, they were no longer valid as legal currency. Usually, a new currency replaces the old currency units.

### **Objectives of study:-**

- To analysis of demonetisation impact on Indian economy.
- To examine the past experience of demonetization in India and in abroad.
- To learn about the people's support towards this movement.

### **METHODOLOGY**

The present paper is based on only secondary data. The data so required has been collected from various websites, news papers. Tables and graphs are used to present the information, where necessary.

### **Reasons behind demonetization:-**

The government made many claims with respect to the objectives and outcomes of the demonetization scheme in 2016. These were:

- \*It will plug financing to terrorists.
- \* It will help unearth black money.
- \*The unearth black money will also expand the fiscal space of the government.
- \*It will help reduce interest rates in the banking system.
- \*It will help formalize India's informal economy, reduce the extend of cash transaction, and help in the creation of a less-cash economy.
- \*The government offered several incentive to induce people to use digital transaction too.

## **Pro's of demonetization:-**

### **Better economy:-**

Since demonetization induces people to deposit their cash with the banks, there is a higher circulation of the money in the economy. The government receives more taxes and can undertake more development projects. Eventually, this leads to a better performing economy.

### **Curbing anti-social activities:-**

Usually anti-social elements like smugglers or terrorists use cash as a mode of transaction when the government decided to demonetize 500 and 1000 rupees notes, they were the highest denomination notes in circulation. By demonetizing them, the government forced these anti-social units to find ways to get rid of the old notes. This allowed the government an opportunity to get better control over the unaccounted money in the economy and curb anti-social activities.

### **Reducing counterfeit currency notes :-**

During demonetization, people deposit all old notes with banks who check if the notes are genuine or counterfeit before accepting them. Therefore, this allows the government to weed out counterfeit notes circulating in the market.

### **Increased Saving:-**

When currency is demonetized, people tend to deposit their cash with a bank and store less physical currency at home. This helps them save more.

### **Lower lending Rates:-**

With currency demonetization, money moves from people to banks and financial institutions. Therefore, there is better circulation of money. Further, banks and financial institutions have a lower cost of funds which translates into lower lending rates.

- Indian economy lost 1.5% of GDP in terms of growth. That alone was a loss of Rs 2.25 lakh crore a year. Over 100 lives were lost. 15 crore daily wage earners lost their livelihood for several weeks. Thousands of SME units were shutdown.
- The Reserve Bank of India (RBI) has come out with its annual report giving a balance-sheet of demonetization implemented 21 months ago. Of Rs 15.41 lakh crore demonetised currency notes of Rs 500 & Rs 1000 denominations, only Rs 10,720 crore did not reach to the banks or the RBI. This means only 0.7 % of demonetised currency notes were junked in the exercise.
- The government has maintained that the income tax department is examining about Rs 1.75 lakh crore of suspicious deposits post demonetisation. Around 18 lakh people with disproportionate income have been identified by the I-T officials.

## **Con's of Demonetization:-**

- Destruction of old currency units and printing of new currency units involve costs which have to be borne by the government and if the costs are higher than benefits then there is no use of demonetization.
- Majority of times this move is targeted towards black money but if people have not kept cash as their black money and rotated or used that money in other asset classes like real estate, gold and so on then there is no guarantee that demonetization will help in catching corrupt people.
- More than 105 people had died in the post-demonetization rush for cash across the country. Demonetization also hit small-scale businesses. Demonetization caused loss of about 15 lakh jobs.

## **SUGGESTIONS AND RECOMMENDATIONS**

- More people in the rural area are to be made aware of formal banking facilities and be taught to make e-transactions. This would make them financially independent.
- Do not hoard cash. Use it in the market to maintain liquidity.
- Do not blindly follow viral contents on social media. Check for its genuineness.
- Do not panic if deposit or exchange of demonetized currency is not done by 30 December, 2016.



It can be done till 31<sup>st</sup> march, 2017, at selected branch of Reserve Bank of India.

## CONCLUSION

9<sup>th</sup> November, 2016 was a turning point for the economy of our country as Rs 1000 and Rs 500 notes were demonetized by our Prime Minister as a step to curb corruption, curb the injection of black money into the economy and to quicken the economic development. Some tried to invest their dying currency in gold. Some contacted their near and dear ones in this miserable hour. The first impact shall be that people will have lower expenditure power. With that they will not be able to purchase luxurious things.

There shall be no ostentatious expenditures on marriages and other ceremonies. There shall be a great check on the terror-related funding and therefore on terrorist activities. Corruption shall be down to a great extent as people will stop the tendency of accumulating money using wrongful means. The Development rate of the economy as a whole will quicken.

## References :-

1. Kapadia, A. (2016). Money and 'Demonetisation'. In: Economic and Political Weekly, Volume 51 Number 51.
2. The times of India, 19 July 2018, 18:13 IST
3. News Paper: The Hindu, Times of India, Business Line, Financial Express.
4. google.com