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Demonetisation and Its Impact in India

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ABSTRACT–Demonetisation indicates the act of stripping a currency unit of its status as legal tender. It means Reserve Bank has withdrawal the use of particular currency which was in circulation.

In 2016, the government of India has decided to demonetize the 500- and 1000-rupee notes. These notes covers 86% of circulating cash in the country. The government's aim was to combat inflation, counterfeit currency, eliminate black money and to promote a cashless economy. The government has claimed that the shadow economy and counterfeit cash to fund illegal activities have to be curtailed down. India has experienced criticized on at many points of time i.e. in 1946 and 1978 before but at all occasions it was partially means the total currency which was in circulation were not criticized. The step of Demonetisation is a significant step in the reforms of Indian Economy. Demonetisation has dampened the Indian economy growth. India has their projection revised downwards. The move was also criticized for poor planning and this totally results into strikes, protection, litigations. Peoples have face queues & queues to exchange their currency.

Key Words: -*Demonetisation, Economy, Currency, Government, RBI*

I. Introduction

Demonetisation basically is the withdrawal of current currency from circulation. It is the act of stripping a currency unit of its status as legal tender. Sometimes it occurs partially or fully. But India has experienced only partial Demonetisation at all occasions i.e. 1946, 1978 and now in 2016. It means only few form of currency has been pulled from circulation.

On 8th Nov. 2016 Government has announced the demonetisation of 500 and 1000 notes. GOI has taken this step to combat black money and counterfeit cash to fund illegal activity and terrorism. The Economist suggested this step to boost the economy of the Country. Let take a look at the Indian Demonetisation:-

- **Demonetisation in 1946:-** As per RBI records this is the first time when RBI demonetised the higher denomination notes i.e. Rs.1000 & Rs.10000 (that start printed in 1938). But RBI reintroduced bank notes of Rs.1000 and Rs.10000 in 1954.

- Demonetisation in 1978:- The notes which are introduced in 1954 were demonetised in 1978.
- Demonetisation in 2016 :- Now currently on 8th Nov. 2016 GOI has announced demonetisation of Rs.500 and Rs.1000 notes in circulation. Earlier in 2012 it was recommended that demonetisation will not be helpful in combating black money which is indulged in Benami properties, bullion and Jewellery. According to income tax probes, holders of black money kept only 6% of their wealth as cash. In June, 2016 has provided an opportunity to tax evaders to disclose their undeclared assets to avoid litigation and paying the tax on them and a penalty of 45% thereafter. Decision of Demonetisation has been made about six months ago but only top members of government, Security agencies and central bank were aware of the move.

However the Demonetised currency was acceptable at some places i.e. petrol pumps, railway stations, CNG and Gas stations, government hospitals, airlines booking counters, state government recognised dairies and ration stores until December 2, 2017.

Exchange of old notes:-

The RBI stipulated that until 30th December 2016 public can deposit their demonetised notes in bank accounts. The banknotes could also be exchanged over the counter up to a certain limit. In some exceptional cases i.e. families and farmers were allowed to withdraw above the fixed limit.

Demonetisation brings to control black money, terror funding, human trafficking. It has affected the whole country positively and negatively also. If we see its short term effects then it dampens the Indian economy but in long term scenario demonetisation is very beneficial for the whole country. The *aam aurats and aadmis* (general population), those who are illiterate suffered a lot from this step of Demonetisation.

II. Objectives

- To eliminate counterfeit currency in the economy
- To shrink the size of black money in India
- To reduce corruption
- To clean out the black market cash supply which completely disrupted social, economic and political sphere.

III. Impacts of demonetization in India

Every coin has two sides, if we see the decision taken by a common man it will also have both merits and demerits. Demonetization has affected our Indian economy from both sides. Everyone is affected by this significant move of GOI.

How demonetization affects the Indian Economy:-

Positives

- It seems that demonetization encourages digital market, even small traders i.e. tea stall owners, vendors, mehendi artist, DTP operator, auto rickshaw drivers, railway counters etc. all are using cashless mode for transaction.
- During the first phase of demonetization banks have received many applications for installation of swipe machines. People who never used ATM cards before demonetization have to switch over to debit and credit cards. Digital wallet, net banking widely used over country.

- It unearth the unaccounted wealth held by people
- This action helps in making implementation of tax system so simple and transparent as along with demonetisation 001 declares some another scheme which significantly enhance the government revenue . When GOI announce the income declaration scheme in june 2016 some people didn't take it seriously but after the move of demonetisation they have no option other than to come into the system of tax.
- It results in increase in bank deposits and consequently many banks have lowered their interest rates. Earlier people have held their money in bigger denomination at themselves this measure of demonetisation have trigger a future call to deposit their savings in banks.
- This move of Demonetisation has big blow to *Hawala* operation.
- This step of GOI is huge setback to terror funding in Kashmir, North East and also in Naxalites area.
- There is huge fall in human trafficking.
- RBI has targeted at 6% inflation by jan 2016 and at or below 5% by march 2017 but demonetization impacts inflation negatively. purchases are slow down, Activities in real estate sector which needs lot of cash slow down significantly. House rates fallen fastly.
- RBI cut the repo rate by 25 paisa in Oct 4, 2016 but further 25 paisa cut also marked in repo rate. Due to expected fall in inflation it seems RBI will undertake more cut in repo rate, these cut will boost consumption.

Negatives

- Chaos and confusion spread all over the country just after the declaration of demonetization and same situation continues as 001 change the implementation of scheme of deposition and withdrawal.
- It also affects common man in various ways-

Bank queues

Problems faced due to corruption by bank authorities
 Farmers hardly gets any money to sow their seeds
 Marriage function affects a lot
 Business come on halt
 Daily workers didn't get any work
 Weakens the consumption power of people

- Micro and small scale industries suffered 35% job losses & 50% decline in revenue according to AIMO.
- Demonetisation has slow down the economic growth.
- Real estate property rates cuts down too much
- Due to shortage of cash consumption and investment capacity of formal and informal sector had reduced. This as well reduced the GDP growth.
- Indian equity market is on falling trend since government has demonetized the currency. The two benchmark indices — NIFTY50 and S&P BSE SENSEX fell on every day except someday. Mid and small cap indices fell sharply than broader market indices.
- Indian rupee fell against the US \$. It mainly occurs due to victory of Donald Trump in USA presidential election.

IV. Suggestions

- A clear, transparent and open electronic bidding system should be made.
- The public should be educated towards the online transaction through e-classes rallies and training.
- RBI should allow a stimulatory weaker exchange rate system.

V. Conclusion

This is the third time in Indian history when demonetization takes place but first two instance not impact the economy as third does because at this 86% of total currency which were in circulation was demonetized. This is true that demonetization helps in curbing the tax evasion practices and by this move approx. black money deposited in banks and public have to switch over digital transactions which are easy to trace, it also helps in making cashless society but due to mismanagement and poor planning economy just came on halt, People struck into bank queue. The higher denomination currency i.e. 500 and 1000 were banned together, people were affected by it, trade across all type of sector was affected, cash centric sector like agriculture, fishing, small trader etc. virtually shut down. India's demonetization seems severely mismanaged.

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