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Research Paper

DEMONETISATION AND ITS IMPACT ON INDIAN ECONOMY

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ABSTRACT

The word Demonetisation means when a currency is deprived of its being a legal tender. India has amongst the highest level of currencies in circulation at 12.1% of GDP. Cash on hand is an estimated at around 3.2% of household assets, higher than investment in equities, or roughly around \$ 220 billion. Of this cash, 87% is in the form of Rs 500 and Rs 1,000 notes or roughly Rs 14 lakh crore (\$190 billion). A significant portion of the household cash on hand is generated by economic transactions that are not reported to tax authorities or generated through corruption. Scrapping the higher denomination money would either result in these being brought into the system or the money just disappearing. The Indian Prime Minister gave sleepless nights to the citizens of this country when he made a public announcement on 8th November, 2016 demonetising Rs. 500 & Rs. 1000 notes of its legal value. The present paper highlights immediate impact of demonetisation on common people of India and the probable consequences of this decision on Indian economy.

KEYWORDS: Demonetisation, Black money, Cash crunch, Cashless economy.

INTRODUCTION

The dictionary meaning of demonetisation is the act of stripping a currency unit of its legal tender. It occurs whenever there is a change of national currency. In simple language, demonetisation of currency means discontinuity of the particular currency from circulation and replacing it with a new currency. November 8, 2016 will be remembered as a watershed event in the history of India when the Indian Prime Minister Mr. Narendra Modi sent the whole nation in a state of shock by announcing in a live broadcast to the nation that Rs.500 & Rs.1000 currency notes would no longer be recognised as legal tender. The government had to face allegations from media and opposition of such move being selectively leaked out earlier. Citizens were given a fixed time period i.e. until 30th December 2016 to convert their old notes into new currency by depositing the same in

banks. It was a herculean task as at that time the total currency in circulation was Rs.16.42 lakh crore (US\$ 240 billion) of Rs.1000 and Rs.500 notes.

The main reasons for demonetisation were as follows:

1. To eradicate black money
2. To fight against corruption
3. To remove counterfeit money
4. To stop terror funding
5. To promote a cashless economy & so on.

OBJECTIVES OF PAPER

- To study the current immediate impact of demonetisation on common people of India.
- To study the probable impact of demonetisation on Indian economy.



RESEARCH METHODOLOGY

This paper is based on secondary data. The data has been collected from internet, journals and magazines.

IMPACT OF DEMONETISATION ON COMMON PEOPLE OF INDIA

As the country said goodbye to Rs.500 & Rs.1000 notes the common people had to suffer numerous hardships. The government imposed various restrictions on exchanging money from banks. High amount old currency deposits until December attracted verification by Income tax authorities, no matter it may be hard earned money. The government also fixed per capita withdrawal limit from banks and ATM's due to which common people had to stand in long queues for hours on regular basis. Most of the ATM's were even not filled with new currency notes which even worsened the problem. As of November 15th, 25 people died directly due to currency chaos and this statement alone may give an idea of suffering hundreds of millions of common people has been going through since 8th November. The worst hit were the people who had weddings in their house or who needed cash urgently due to serious health issues. The small retailers were adversely affected as they had substantial part of their dealings in cash. Farmers too had to pay heavily as they could not afford to sell their crops. Many street vendors lost their business while the daily wage workers were left jobless. Those with no bank accounts had to face a tough time struggling to convert their old currency notes, although it was hard earned money.

IMPACT OF DEMONETISATION ON INDIAN ECONOMY

- **Black Money** - Black money is often termed as illegal or unaccounted money. It is that money on which tax is not paid. People keep black money as cash in their houses or in some secret place which is very difficult for the government to find out. In one stroke our PM choked the supply of black money stacked inside the country. With demonetisation move, black money hoarders were left with two options, one is to deposit such money in banks accounts and pay heavy penalty and other is to destroy such money.
- **Political parties in crisis ahead of polls** – Modi's demonetisation announcement has come as a shock for political parties for whom black money is a medium to win elections by purchasing votes in exchange for notes. This will help make the much

corrupted election process clean and transparent.

- **Terror financing** – Terror activities are financed by fake Indian Currency Notes network banning old 500 and 1000 rupee notes will have a drastic effect on syndicates producing Fake Indian Currency Notes (FCINs) thus closing all windows for terror funding.
- **Real Estate correction** - Real estate industry is believed to be built on black money. Most of the transactions in real estate business are done in black. Demonetisation will help in restricting the flow of black money into real estate sector making it clean and transparent. As a result prices of land and property would see a sharp decline.
- **Counterfeit currency** – Demonetisation has given a big blow to the counterfeit Indian currency syndicates operating both inside and outside the country. A study conducted by Indian Statistical Institute, Kolkata on behalf of the National Investigation Agency (NIA) suggests the Fake Indian Currency Notes (FCINs) amounting to Rs. 400 crore are in circulation in the country at any given point of time and around Rs. 70 crore fake notes are pumped into Indian economy every year. This is just an estimation. Actual figures could be much larger. Pulling out Rs.500 and Rs.1000 currency notes out of circulation and replacing them with new Rs.500 and Rs.2000 series has completely stopped the circulation of fake Indian currency.
- **Digitalisation of the economy** – Due to Demonetisation, Indian economy will witness a move towards a cashless economy i.e. increase in volume of electronic payment methods, more credit/debit card transactions, increase in digital payments, mobile payments and online banking which will push the vision of **Digital India** further.
- **Increase in Revenue to Government** – Due to people disclosing their income by depositing money in their bank accounts government gets a good amount of tax revenue which can be used for the betterment of the society by providing good infrastructure, hospitals, educational institutions, roads and many more facilities for poor and needy sections of the society.

CONCLUSION

Demonetisation is just one step of many steps in eradicating black money, fighting corruption, etc. Though a bold and much needed move for our country where black money runs a parallel economy, yet it was not properly implemented. The loopholes in planning this move became visible when the common man had to suffer terribly. These hardships could have been easily avoided if the government had prepared well in advance. Despite these temporary sufferings people did not lose their faith in our PM. It is believed that demonetisation will benefit the country's growth in long run.

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