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## **DEMONETIZATION AND IT'S IMPACT ON INDIAN ECONOMY**

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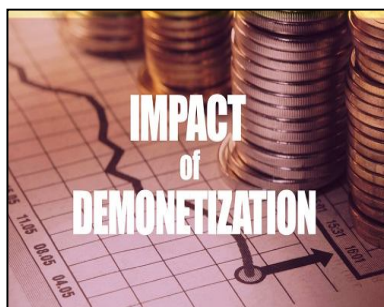
### **ABSTRACT: -**

*India is a developing country not developed like U.S.A. In India, total population is 1.2 billion and the second largest of the world according to the socio economic and caste census 2011. The literacy percentage of India is 74.04%. More than 25% still belongs to illiterate.*

*As of 2001 India had a large and diverse agricultural sector accounting an average for about 16 percent of GDP and 10% of export earnings. India's arable land area of 159.7 million hectares (394.6 million areas) is the second largest in the world after the United State. In 2011 agricultural census of India an estimated 61.5% of the 1300million Indian population is rural and dependent on agricultural land .The number of farming households is 159.6 million.*

*When the government of India under the prime-ministership, "Mr Narendra Modi" took a historic decision by announcing that the high-denomination note (Rs. 1000 and Rs. 500) then in circulation would cease to be legal tender. With demonetization effort 86% of India's currency was nullified that aimed to wash the stock of 'black market's Cash Supply' and counterfeit notes out of the economy and convert it into the licit banked and taxable part of the Indian Economy. To reduce the impact of sudden commercial collapse a 50(fifty) day period ensued where the population would exchange their cancelled cash for newly designed currency Rs. 500 and 2000 notes or deposit them into bank accounts in this sudden decision taken by government of India the irrespective of the widespread anguish and household disturbances and optimistic sentiment shown regarding this decision. Because, half of the population of India uses banking monetary transaction. In immediate public anger appeared against the mismanaged and unprepared banking system which led to shortage of lower denomination notes such as Rs. 50 and Rs. 100. The demonetization initiative has caused a sudden breakdown in India's commerce and the unbanked and informal economy is hard hit. Trade across all aspects of Indian economy like agriculture, fishing and the huge informal market were almost shutdown during the initial day of announcement and could endanger the employment and livelihood of weaker section of society. The change disturbed the lives of ordinary people led to widespread need and major job losses for the poor.*

**KEYWORDS:** *Denomination, unbanked, mismanaged, unprepared.*



### **INTRODUCTION:**

Demonetization is the Act of stripping a currency unit as legal tender. To change the national currency demonetization occurs. A country may replace old currencies into new notes or coins if necessary. The opposite meaning of demonetization is remonetization, where a form of payment is restored as legal tender.

Demonetization may be defined as an economic policy where certain currency unit ceases to be recognized or used or used as a form of legal tender status as a new one comes into circulation. To stop the

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circulation of a denomination of notes or coins, the govt. can announce such decision in a country.

The currency with no more legal tender is exchanged in banks & financial institution.

Government takes such economic policies for the growth of economy of a country. The strategy of demonetization by a government is helpful to stop black money circulation. Taxes can also be evaded for cash transactions due to lack of account statement to be recorded.

However, demonetization has its impact on countries social, economic and political system. The impact may be good or bad depending on capabilities of managing the whole system for the welfare of society and country. The points of advantages and disadvantages can be pointed out as bellow mentioned points.

### **HISTORY OF INDIAN CURRENCY :**

The Reserve Bank of India was set up in 1935 and empowered to issue Government of India notes. The first currency issued by Reserve Bank of India was a 5 rupee note bearing King George Victoria portrait, in January 1938. Before Independence the RBI had also printed 10,000 rupee note which was later demonetized. This Rs 1000 currency notes were circulated between 1938 and 1946.

After gaining Independence in 1947 the first banknote print was a 1 rupee note and the symbol for the paper currency was the lion capital at Sarnath which replaced the Victoria portrait series of banknote. After that in 1969 RBI issued the Mahatma Gandhi Birth Centenary Commemorative design series on Rs-5 and Rs-10 notes .Finally, in 1996 RBI introduced the series of bank notes where the image of Mahatma Gandhi is used. This Mahatma Gandhi series banknotes were issued in the denominations of Rs 5, Rs 10, Rs 20, Rs 50, Rs 100, Rs 500 and Rs 1000. A new denomination of Rs 2000 banknote are issued and are in circulation since 10<sup>th</sup> of November 2016.

### **HISTORY OF DEMONETIZATION IN INDIA:-**

In India demonetization has been implemented for the first time in 1946 and second in 1978. In 1946 the currency note of Rs. 1,000 and Rs. 10,000 were demonetized. This demonetization did not have much impact, because such higher denomination was not accessible to the common people. But, both the notes were reintroduced in 1954 with an additional introduction of Rs. 5000 currency. Again in 1978 the currency note of Rs. 1000, Rs. 5000 and Rs. 10,000 were ban to drive away black money out of circulation in the country. The Rs. 10,000 note was the highest of all denomination ever printed by the Reserve Bank of India in 1938 and was again in 1954 which were demonetized in the January of 1946 and again in the January of 1978.

Recently on 8<sup>th</sup> of November 2016 the government of India that is honorable Prime Minister Mr. Narendra Modi demonetized the denomination of Rs. 500 and Rs. 1000 notes and will be issued the Mahatma Gandhi New series of Rs. 500 and Rs. 2000 in exchange for the old currency notes. The attempt taken by the government can eliminate a reasonable volume of currency notes which is in the circulation because of inflation.

### **IMPORTANCE OF DEMONETIZATION IN INDIA**

Demonetization becomes necessary whenever there is a change in the national currency. The Indian government by this step will prove historical and the first step towards a corruption free India. This move is an effort to slap the counterfeiting of the current currency notes allegedly used for funding terrorism across the border by the neighboring countries, and as an attack on the black money in the country. It is claimed as an initiative to curb corruption, trafficking of drugs and smuggling across borders. National demonetize the local units of currency for combating corruption and to discourage a denominative cash system. The government's aim was to wipe out the counterfeit currency, tax evasion, abolish black money generated out of money laundering and terrorist funding activities and to promote a cashless e-commerce. After demonetization the peril of fake currency note has been overcome and had strengthen the currency of the country.

### **OBJECTIVES OF DEMONETIZATION IN INDIA:-**

The main aims and objectives of demonetization have been listed in following points:-

**1. Fake currency tracking:-** One of the main objectives of demonetization in India led by PM Modi in 2016 was tracking of fake currency. It was seen that in Indian markets the smugglers had circulated the fake currencies and it was spread all over the country. Village people often faced some serious problems in Banks

or shoppers corner with those fake currencies as those fake currencies were too well designed to detect for the villagers as the note was fake or original. Although it was noticed that the fake currency notes were greater in Rs. 1000 notes than Rs. 500 notes in numbers.

**2.To Bring More Revenues from Taxes:-** Another important objective of demonetization by Modi government was to collect more and more revenues from tax sources. India is a large market where millions of trades done every single day in various sectors. But tax collection was very poor. The Indian government therefore projected seriously to bring a huge revenue from the tax sources and it was a good result for the country we can say. However, it is to seen in near future the infrastructure development of the country, whether public are beneficiary of those tax collections or not.

**3. Digital India:-** The Indian government always been talking about a digital India formation. Now digital India and demonetization is also related because of the promotion of digitalized payment systems by the government. Governments tried to encourage the cashless transaction which in turn will led to had more funds in banks. And thus, government would avail more finance related schemes, loans that are too with in low interest rates, government subsidiaries etc.

**4. To stop dealing Arms and Immunization in borders by terrorists:- Now** it was one of the greatest advantage for the country and most bad news for the terrorists. After the demonetization of Rs. 1000 and Rs. 500 notes the money with terrorists were just like the value of a general paper only. Terrorists by using money power always dealt in arms in borders. We can say in this point of view that government had took such a major step where indirectly all the terrorists and extremists groups of various regions in India were gunned down in a single trigger. Finally, the money looted by the extremists from the innocent peoples or earned by smuggling, dealing with wild animals were of no use.

**5. Black Money:-** Now this is one of the most important topics we can discuss. The black money and black market was like a traditional activities for some people and business persons in our country. They gain a huge from markets always and the amounts were not accounted either way. Modi government therefore compelled the businessman to deposit the money earned by them without detailed accounting and that were completely unknown to government tax departments as well. Although government of India offered them at the last days during the 50 day time frame to deposit the old notes. They were offered 50% tax to be cut from their deposit and to make 50% white money absolutely. The bold step by government actually saved the amounts from being lost and that was a great announcement by PM Modi.

## DISCUSSION:-

The decision of demonetization was criticized by members of the opposition parties, and which resulted in many debates in both the houses of parliament and protest against the current government in front of the parliament and also demanding the Prime Minister's explanation across India. According to annual report of RBI as on 31 March 2016 the total bank notes in circulation was valued to Rs. 16.42 trillion in which approximately around 86% were just Rs. 500 and Rs. 1000 bank notes. It was 24% in terms of the total volume in the 90266 million bank notes which were in circulation till 8<sup>th</sup> November 2016.

The government of India had learned various financial schemes to encourage and enable all to have bank accounts opened to receive the financial benefits directly in their account. The people having no banking system in august, 2014. The government of India had launched the financial scheme Jan Dhan Yojana. Similarly, the new Pradhan Mantri Garib Kalyan Yojana (PMGKY) announced paves for fifty percent taxes and also a surcharge on all declaration of unaccounted or untaxed cash deposited in the banks. The Indian government has declared an Income Declaration Scheme (IDS),

Which was announced on 1st June 2016 and closed on 30th September 2016. Under this scheme, the black untaxed money holding citizens could come by them to declare their assets, by paying the tax and a 45% penalty. This scheme could yield about Rs. 65,250 crore (US\$9.7 billion) through 64,275 declarations in which the 45% is added to the revenue for the government. The "Unified Payments Interface" scheme initiated by National Payments Corporation of India in the April of 2016. Between November 10th of 2016 and November 27th of 2016, all the banks have reported that the total exchange and deposits of demonetized currency notes are of worth Rs. 8.45 trillion (US\$130 billion) (exchange of Rs. 339.48 billion (US\$5.0 billion) and deposits are of Rs. 8.11 trillion (US\$120 billion)). During the same period of time, an amount of Rs. 2.16 lakh crore (US\$32 billion) was withdrawn by the people from their bank accounts.

Reserve Bank of India shows that between November 10th and December 7th of 2016, new Currency notes worth Rs 427,684 crores have been distributed by the banks to the public for circulation either over the bank counters or through ATMs. From history we can come to know that demonetization had not brought a great success in any country but a well managed & planned step surely upward the economy of a country to its next level.

### EXPERTS & POLITICIANS VIEWS ON DEMONETIZATION:-

The Comments and views of great Indian politicians are always interesting. While the country people struggling in queues outside banks, some of the politician just got the exact time to open their mouth in front of media. After the announcement of demonetization Rupa Ganguly BJP, MP in the Rajyasabha Rupa Ganguly commented, "Ye jo lambi lines thi in mein aadhe toh political parties ke planted log the."

When it is filled with blind luminaries such as her It's beautiful how the ruling government can even stand to function. Congress Prince was not too late to tweet either. Yes, None but Mr. Rahul Gandhi tweeted on demonetization, "The cold play while the poor suffer." Modi is always a good actor to impress people in his sweet speeches. Mr Rahul Gandhi told That PM Modi bounds to suffer peoples, who are innocent, who are poor. He also added that the process of wiping out black money was not only option to demonetize, rather as a Government in action, there were plenty of sources available which could be done to stop corruption or black market. In fact demonetization brought problems for poor people while the rich were not suffering as them. Uma Bharti, Cabinet Minister of water resources compared Modi with Karl Marx. According to her, "This is actually Marx's agenda, what later Lohia said and then Kanshi Ram. The truth is the Prime Minister is executing what Marx always advocated. Marx always said there should be equality. There should be no disparity. And that's exactly what the Prime Minister is saying – reduce the gap between the rich and the poor. It can be achieved by opening Jan Dhan accounts; MUDRA yojana and bringing accounting for black money. I think Left groups across the world should complement Modi ji."

West Bengal Chief Minister, Mamata Banerjee was one of the person who was most active to protest PM Modi for Demonetisation. She said to PM Modi, "You don't have to touch anybody. You arrest me. I challenge you, if you have the guts you arrest all of us, nothing will deter us from raising our voice against demonetization. Demonetization is a big scam. We want to know what the deal is. We will say it thousand times," she said at a public meeting.

### IMPACT OF DEMONETIZATION ON INDIAN ECONOMY :-

Indian economy is highly dependent on cash. Less than 50 cent of country's people use banking system. Most of the villagers have not even bank accounts. In remote areas people are even least knowledge of banking system.

Growth in cash intensive sectors such as real estate, construction & FMCG was likely to take a hit in the short term as consumers were deferring purchases. However over midterm there would be benefits through higher government spending greater financial inclusion. People will keep less in hand and save in banks. These could boost growth in banking sectors according to Yes Bank Report. Near term fall in growth on account of spending slowdown, could push inflation down.

### ADVANTAGES:-

1. **Black Money :-** Peoples who are holding black money were unable to exchange their cash as they feared about being caught and penalties.
2. **Fake Currency:-** The terrorists dealing with fake currencies could not continue their activities further after the declaration.
3. **Better Banking System:-** Government of India was promoting cashless transactions more than the cash transactions. This would ultimately increase the holding of cash in banks and thus bank can had opportunities for more financing capabilities.
4. **Low Interest Rate :-** Bank could now generate more loan facilities in the form of various schemes and with lower interest rates due to more funds available in the banks after demonetization.
5. **Smuggling reduced:-**The smugglers could not deal with illegal activities of arms and illegal international trades of selling animal skins, rhino horns etc. as the cash were not more in legal tender.

**6. More Revenue for the Government from Taxes:-** After depositing the cash hold by the people, the taxes could not be avoided later on.

**7. End of corruption:-** Some of the corrupted politicians and bureaucrats always looted the masses by looting public funds and transferring those amounts to their own bank accounts. Millions of amounts looted were then for valueless absolutely.

**8. Country money brought to account:-** All the 500 and 1000 old notes had to be deposited. That process brought the country money accounted completely.

#### **DISADVANTAGES :-**

1. Cost of new notes printing:- It was going to cost extra for printing works done for the new notes Rupees 2000 and Rupees 500.

2. Loss in businesses: - May be for few days but the businesses were in great loss during the beginning days of demonetization. It was almost impossible to sell vegetables, fish etc. which were fully dependent on cash market. The small salesman had to face huge losses during the first month of declaration.

3. Panic for the people: - Most of the people were panic after hearing the news. City people as well as Villagers were shocked and all the situations were in tense.

4. Digital payment related problems: - The illiterate villagers were highly worried about the digital payment system to be encouraged by the PM Mode government. It was too far away for the villagers to understand the Digital payment processes, mobile banking, net banking etc. and thus that weird in villagers mind.

5. Problem in wage payment for labors: - Labors are paid in daily system for their work. Due to lack of new notes in banks it was not possible for the firms, factories etc. to make payment for those labors.

6. Deaths in hospitals:- Those who have no digital payment mode had to face very serious problems in hospitals. They had money with them and even though they could not make payment as they had not enough new notes and old notes were not accepted at hospitals after the announcement. That was very panic situation for those people and as a result some of them had to loss their family, relatives, loved ones and friends as well.

7. Lack of preparation by the banks:- The bankers were unable to control the situation even after working extra hours. The work pressure was too high and totally unprepared by the bankers.

8. Lack of proper management of government:- All the situation seemed to not less than a war. People were inconvenient, bankers were overloaded, and Most of the ATM's were not working. All these happened only because of lack of management, and lack of proper planning by the government of India.

#### **CONCLUSION:-**

A well prepared demonetization system is most essential to avoid any inconveniences in a country's economy. A well Managed demonetization would always improve the all round development for the economy of a state by collecting more tax revenues and eradicating black money. Unfair means of terror funding and smuggling could also be stopped due to ban of high denomination notes. However failure to manage all those things would bring some serious problems for country. Hence, a public support must be sought for the overall success of this policy.

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