



Demonetization in Indian Economy

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- 1. Abstract-** Demonetization is the withdrawal of a particular form of currency from circulation. Through demonetization, the old currency is replaced by the new currency or a currency circulating is blocked. The main objectives of this step are to check The inflation to curb the curb the corruption and to promote the cashless transaction. As per RBI, 87% transaction in India are cash transaction and this loophole is used by the corrupted people to build a parallel economy with unaccounted money. This step of government will surely result into something good and help in reducing the black money, preventing the corruption and Terries and promote the cashless transaction.

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- 2. Introduction-**

Demonetization means that RBI has withdrawn the old Rs. 500 and Rs. 1000 notes as an official mode of payment. Acc. To Investopedia “Demonetization is the act of stripping a currency unit of its status as legal tenders ” Recently, Govt. declared on 8th November 2016 from midnight that Rs. 500 and 1000 Notes will no longer be legal tender. The RBI will issue Rs. 2000 note and Rs. 500 Note which will be placed in circuiting from 10th Nov, 2016 Other notes like 100Rs., 50Rs. 10Rs. 2Rs and 1 Rs. Will remain unaffected by this decision. There are some reasons for this step which are given by prime minister. P.M. Modi.

- To tackle black money in the economy.
- To lower the cash circulation in the country which leads to increase corruption?
- To eliminate fake currency and funds which have been used by terror groups to fund terrossim in India?
- According to Baba Ramdev, more than 5 Lakh crore, money is black, this black money is used for country’s is growth.

According to annual report of RBI on 31st March 2016 that total Bank note in circulation valued of Rs. 16.42 Lakh core out of which nearly 86% was 500 and 1000 note. After analyzing this situation, the give considered this step necessarily.

- 3. Objectives and Research Methodology –** The study based on secondary data which is collected from the newspaper and internet. The objective of the study are.
 - To analyze the short term impact of demonetization on India economy.
 - To study the long term impact of demonetization.
 - To workout the probable consequences of the demonetization.
- 4. History of demonetization in India -**



It is not a new practice. It is also used at early time in India. In 1946 the currency note of Rs. 1000 and 10,000 were removed from circulation. Both notes were reintroduced in 1954 with an additional introduction of Rs. 5000 currency second time. It is used in 1978 for all notes above Rs. 100. I.e. Rs. 1000, Rs. 5000 and Rs. 10000 were removed from circulation by Janta Party Govt. to destroy the black money of smuggler. The 1000 Rs. Note were brought back in 2000-01. Latest it was carried on 8th November 2016, for Rs. 500 and Rs. 1000 note, done through a T.V. announcement by P.M. Modi to break the backbone of corruption illegal election funding, terror financing etc.

5. World history about demonetization-

There were other nations too that have tried changing their currency in the past these are.

- i. Ghana- in 1982, Ghana rolled out the decision to demonetize their 50 cedi currency notes in order to monitor money laundering and corruption.
- ii. Nigeria- This economy collapsed after 1984 demonetization move that did not go as planned. The govt. introduced different colored notes to invalidate their old currency in order to fight black money
- iii. Myanmar- Around 80% of Myanmar's currency was demonetized in 1987 by the military to curb black money but the move result in a lot of protest and the country witnessed several killings.
- iv. Soviet Union- in 1991, the Soviet Union demonetized the higher denominations of Ruble bills, the 50s and 100s. The move did not go well and resulted in take over within 8 months of the plan.
- v. North Korea- North Korea faced demonetization of their currency in 2010, which led to major economy break down with people left to starve for basics.
- vi. Zimbabwe –Zimbabwe had hundred trillion dollar note which was demonetized and was exchanged in a mocking way dropping trillion dollars to \$0.5 dollar.

6. Procedure for exchange Old Notes:-

The RBI laid down a detailed procedure for the exchange of the demonetized bank notes with new Rs. 500 and Rs. 2000 bank notes of the Mahatma Gandhi new Series and Rs. 100 bank notes. Of the proceeding Mahatma Gandhi Series. other announcement :-

* The citizen will deposited the old bank note in their Bank Accounts up to 30 Dec. 2016

* Cash withdrawn from bank accounts will be restricted to Rs. 10000/- per day and Rs. 20000/- per week from 9 now, 2016 till 24 Nov. 2016.



* For immediate cash needs, the old bank notes of value up to Rs. 4000 per person can be exchanged for new notes over the counter of bank branches from 10 Nov. 2016 by filling up a requisition form along with a valid ID Proof.

7. **Impact of demonetion** – This Policy affected the overall economy in many ways. The impact of this policy is may be positive or may be negative. These impacts are analyzed in these manners.

D . Periodical Impact.

- i. Short term impact- There will be a disruption in the current liquidity situation so commodity transaction and general cash market are effected involve in small trace market activities like kirana stores, drivers have already stopped accepting Rs. 500 and Rs. 1000 notes overall negative impact on Disposable income and GDP in the current quarter.
- ii. Long term impact – As a long term impact it is helpful to curb black money and stem illegal financial activity and most significant as a tool to fight corruption.

2. **Sectoral Impact-** The impact on various sectors has been show through the table.

Positive Impact	Negative Impact
Banking	Agriculture
Pharma	Luxury Goods
Tourism	Real Estate
Online retail	Air lines
E market place	Automobiles Infrastructure. Consumable goods durable and Non-durable

General Impact. General impact desirable much negative and positive impact on Tax. Interest rate, liquidity, money supply demand etc.

- i) Positive Impact- The following positive impacts are.
 - Abolish Black money- This step would abolish black money from the economy as the owners will not be in a passion to deposit the same in the banks this step would make black money kept in cash which used to create terror scrap.
 - Strengthen Indian Banking System.

This will automatically lead to more amounts being deposited in saving and current accounts cash lying out of economy flow is now coming into circulation. This



in turn will enhance the liquidity position of the banks which can be utilized further for lending purposes.

-Higher Tax Collection- For utilizing the old notes, Defaulter of Bank, property tax electric bills and telecom bill re clearing long pending bills.

-Deflation- Price level is expected to be lower in short time small vendors who generally deals in cash would now start using cashless modes for transition or digital method.

-Price down in Real Estate:-

From this step, the black money would get out of circulation from this sector. Eventually the sky touching basics of property will come down to the reach of a common man.

-Make rupees strong:-

It will enhance the value of Rupee common man holding. It will result into cheaper foreign imports, cheaper study in abroad etc.

-Bank rate cut:-

larger the money in circulation on result in better the condition of banks that will result into lower bank rates. Well will have to pay less interest on EMIs.

-A speed breaker for corruption:-

This step of govt. will subdue corruption up to a creation level and for a considerable time period which in return will attract foreign investor to Indian market, Indian Market has been the first choice of investors considering large size and high number of consumes.

II) Adverse impact of demonetization is as follows –

-Adverse impact on Informal Sector:-

Player of informal sector having less income as they mainly deals in cash only are facing tough time due to this scheme, sudden removal of cash form maker put their business on a dormant phase.

-Plight of primary producer:-

– Lack of liquidity would result in distress to primacy producers who do not here much money, so that they could hold their produce for long and on the other side due to lack of currency in flow they are offered every less by the buyers in the market.

-Possibility of breaking Riots:-

-There are money anti state elements present in the society who are trying to spread unrest in the society, they can exploit the situation and incite those disheartened people to make a platform to break riots.

-Violation of rule by general Public:-



Many people are entering ATMs, and using 3-4 different ATM cards and with drawing 4x cash then the prescribed limit one person, so violating the limit prescribed by the govt.

-Exercise burden on Bank employees:-

This is a clear fact that there is an excessive burden on bank employees to cope up with the situation and even after work in so hard they are not able to satisfy the need of people.

8. **Conclsum:-** The demonetization measure is welcomed by majority of the people as 93% of the respondent in the Modi App. Voted in favor. Though, the real people buffering are standing in the quince and are mostly poor. The recent announcement of Mr. Arun Jaitely that. The proceeds of tax collected during the demonetization drive will be used for the welfare of the poor is welcome measure though Earlier LPG Direct Benefit Transfer was used to divert the subsidies of the rich to offer 2 core free LPG connections to the poor, overall Dementitization is a bold step towards good governance and transparency.

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