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DEOMNETISATION- A BOON OR A BANE

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Abstract: This research paper explores the effects of demonetisation in India, examining whether the policy was a boon or a bane for the Indian economy and society. In November 2016, the Indian government announced a demonetisation policy aimed at curbing corruption, promoting digital transactions, and reducing the circulation of counterfeit currency. Using a combination of primary and secondary data sources, including government data, academic studies, and media reports, this paper analyses the immediate and long-term impact of demonetisation on various sectors of the economy and society. The research focuses on the effects on small and medium-sized enterprises, agriculture, and the informal sector, as well as on the banking and financial sectors. The paper also examines the political and social implications of demonetisation, including the impact on public trust in the government and the rise of populism. The findings suggest that while demonetisation had some short-term benefits, such as the reduction in black money circulation and increased tax compliance, the policy also had significant negative consequences for the economy and society, particularly for marginalized groups. Ultimately, this paper argues that demonetisation was not a boon for the Indian economy and society, but rather a bane, with long-lasting negative effects that continue to be felt even today.

Index Terms - Component, formatting, style, styling, insert.

Introduction

Demonetization is the act of cleaning up a currency unit of its standing as the monetary system. It happens whenever there's an amendment in National currency. The present kind or types of cash is forced from circulation and retired, typically to get replaced with new notes or coins. Sometimes, a rustic utterly replaces the previous currency with a brand-new currency. In 2016, the Indian government decided to demonetize the 500 and 1000 rupee notes, the 2 biggest denominations in its currency system; these notes accounted for 86% of the country's current money. With very little warning, India's Prime Minister Narendra Modi proclaimed the grouping on November 8th 2016, that those notes were wasted, effective immediately—and that they had until the end of the year to deposit or exchange them for recently introduced 2000 rupee and five hundred rupee bills. After the announcement of the demonetization, people were given 50 days to deposit them in bank accounts or exchange them for new notes at banks and post offices, when only half of Indian adults have bank accounts. By withdrawing 86% of circulating currency when the majority of the day to day transactions are cash based, the Indian government burned down its economic house in order to eradicate the pest of corruption. Even though people had time until the end of the year to deposit the notes in bank accounts, doing so in large quantities could expose them to high taxes and fines. So they rushed to banks, ATMs, gas pumps etc. and to creditors to repay loans. The biggest downside of an equivalent being inability of the individuals and therefore the businesses to use the bills with price for any variety of transactions additionally to no price in storage for the long run. It has been further argued that conclusion being Associate in Nursing extreme step needed ineffective planning and robust purpose behind it. According to the study conducted by Sangeetha (2018), from the angle of the demonetization within the Bharat, the Indian government intends to begin to curb the black money

and its flow and thereby creating the present holders of the black money within the higher price bills nullified. However, there's no proof supporting this proposition of the government and its advantages within the short term, medium term or the long basis.

According to a 2018 report from the Reserve Bank of India, some 99.3% of the demonetized banknotes, or ₹15.30 Lakh Crore (15.3 trillion) of the ₹15.41 Lakh Crore that had been demonetized, were deposited with the Banks, leading analysts to state that the effort had failed to eradicate black money from the economy. The BSE SENSEX and NIFTY fifty stock indices fell over 6 % on the day when the announcement was made. The move reduced the country's industrial production and its value rate of growth. It is estimated that 1.5 million jobs were lost. The move additionally saw a big increase in digital and cashless transactions throughout the country.

Initially, the move received support from many bankers furthermore as from some international commentators. The move was additionally criticized as poorly planned and unfair, and was met with protests, litigation, and strikes against the govt in many places across India. Debates additionally occurred regarding the move in each houses of the Parliament.

Review of Literature

One of India's most notable economic moments was the demonetization, which had a negative impact on the economy's liquidity and on all of its residents. The demonetization's goals were to eradicate black money and counterfeit currency, wipe out the funding for terrorism, and move the nation's and civilization's economies towards cashless trade and commerce.

Some of the main positives of the demonetization are:

- 1) **Cashless economy** - Cash transactions are still a common practice in India. People are at ease handling money. Cash hoarding is unavoidable because more than 50% of transactions in India are made with cash, according to numerous researchers. Up until 2011, the growth of the cash economy as a share of the national GDP was under 10% .Since our country is transitioning to an e-economy with online banking transactions, internet money transfers, automatic payment through instructions, etc., this rise should have decreased. But, as of right now, this number has risen to 12%, which is troubling and a symptom of weak banking efforts.
- 2) **Positive impact on economy** - Several problems like poverty in our nation are mostly caused by hidden money. Demonetization, according to Finance Minister Arun Jaitley, will boost the economy overall and the GDP in particular. Banks will be able to lend more money to the social and agricultural sectors at low interest rates because of the enormous deposits and flow of white money in the economy. The funds that were hidden in multiple industries will enter the financial sector, where banks will be able to use them for the growth of the economy. The interest rates on loans will decrease as a result of the banks having access to more money.
- 3) **Enhanced Tax Collection** - Another unexpected benefit of tax revenue for the Indian economy is provided by demonetization. Owing to the introduction of new currency, all cash must be deposited with the banking system. According to an estimate by the Reserve Bank of India, there are over 12 lakh crores worth of currency in circulation, of which 3 lakh crores will never be recovered because they are linked to numerous other types of assets. Nonetheless, the funds that will be deposited in banks will provide the government with a significant amount of revenue (almost 2 lakh crores) in the form of tax payments. So, deliberate tax evaders and defaulters might get their act together.

4) **Security aspects** - The security of the Indian economy is put into doubt by the fake currency that is currently in use. By way of example, 3% of all old cash deposited in banks in India is in the state of Jammu & Kashmir. Besides the unrest in the state, people lined up to exchange, withdraw, and deposit money in the enormous lines. In this unsettling position, the fact that the state's instability has decreased to a certain degree is actually encouraging.

5) **Terror funding** - Reducing terrorism in the nation is one among the primary goals of demonetization, according to the administration. It will render Pakistani counterfeit money unusable. The majority of the money used by terrorist organizations is cash. Due to demonetization, the cash held by these agencies is now void. The notes will lose all of their value unless they deposit the money in banks. Most of the counterfeit money used by these organizations is high denomination. As a result, the economy will no longer use this false money.

6) **Lower Land prices** - It is anticipated that land prices will decrease by 30–40%. The land is a prime investment location and used to be where the majority of illicit funds were hidden. The costs will decrease to a manageable level. This industry will be legalized by maintaining accurate registration records. The government's other policies, such as the Goods and Sales Tax and the Benami Transactions amendment Act, will help the real estate industry advance.

Some of the negative impacts of Demonetization are

- 1) Demonetization won't end black income on its own. The most crucial policy should be tax administration, which allows the tax authorities to track expenditure and compare it to the specific person's income.
- 2) Demonetization may have a positive impact on digitization, but it will take time for India to transition to a cashless economy. According to Bloomberg data, 98% of consumer transactions are made in cash, and the majority of these transactions take place in India's rural areas. India still has 233 million people without access to a bank account, according to a PwC Study, indicating that there is still more work to be done before people can jump on the digital bandwagon.
- 3) The impact would be detrimental for NBFCs that conduct the majority of their cash collections and cash disbursements. They include businesses that finance gold and microfinance organizations, among others.
- 4) Demonetization, in the opinion of Professor Arun Kumar of Jawaharlal Nehru University, is not a solution for fighting counterfeit money. With demonetization, counterfeit currency imports and new printing will continue.

The impact of demonetization on Indian economy

- 1) **Effect on Parallel economy** - The removal of these 500 and 1000 rupee notes and their replacement with new 500 and 2000 rupee notes is anticipated to: - Remove black money from the economy because owners won't be able to deposit them in banks; - Temporarily stall the circulation of large amounts of counterfeit currency; and - Reduce funding for anti-social elements like smuggling, terrorism, espionage, etc.
- 2) **Effect on Money Supply** - Money supply is anticipated to decrease in the short term as a result of the scrapping of the older 500 and 1000 Rupee notes and up until the new 500 and 2000 Rupee notes are widely used in the market. The amount of reserve money and thus the money supply will permanently decline to the extent that black money (which is not counterfeit) does not re-enter the system. Money supply will increase, albeit gradually, when new notes are distributed on the market and the discrepancy is fixed.

3) **Effect on digital payment** - In just one week, around 1.2 crore more People began using digital wallets. In the week after the announcement, mobile payments' reach rose by 6% when compared to the week before, reaching a peak of 70%. Moreover, usage frequency rose 15%.

4) **Effect on farmers** - The introduction of demonetization during the Rabi sowing season will significantly limit farmers' ability to purchase seeds and plant, which will have an impact on food output. The data on the Rabi planting season is presented in the appended table, which shows that the acreage has actually grown by about 9% this season. If there had been a strain on rural commercial transactions, the sowing season could not have seen a rise.

5) **Effect on Gross Domestic Product of India** - By looking at the ratio of currency in circulation (at the end of a fiscal year) and the nominal GDP (in that fiscal year), we can see that currency in circulation was 12.1% of India's nominal GDP in 2015-16, the year before demonetisation. It plummeted to 8.7% in 2016-17 as the banking system was struggling to put cash back into the system after demonetisation. Since then, this ratio has climbed steadily and it reached 12% in 2019-20. A restoration of currency in circulation to nominal GDP ratio shows that there was no significant impact of demonetisation until 2019-20.

Conclusion

The question of whether demonetisation in India was a boon or a bane is a complex and contested one, and there is no clear-cut answer. Some argue that demonetisation was a necessary step to curb corruption and black money, while others argue that it was poorly planned and implemented and caused significant economic disruption.

On the one hand, demonetisation led to the cancellation of high-value currency notes, which were often used to store black money and evade taxes. This move was intended to reduce corruption, increase transparency, and promote the use of digital payment systems. In addition, demonetisation reportedly helped to reduce the circulation of counterfeit currency and disrupt terrorist financing.

On the other hand, demonetisation caused significant economic disruption, especially in the short term. The sudden withdrawal of a large portion of the currency in circulation led to a cash shortage, which disrupted businesses and led to job losses. In addition, many people who relied on cash transactions, particularly in rural areas, were severely impacted. There were also reports of long lines at banks and ATMs, and instances of people dying while waiting in these lines.

Overall, the impact of demonetisation in India is a subject of much debate and depends on one's perspective. While it may have had some positive effects, it also caused significant economic disruption and hardship for many people.

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