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DEMONETIZATION:-INDIAN ECONOMY

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ABSTRACT : The government of India took a major economic decision of demonetizing high value currency notes of Rs.500 and Rs.1000 in . Demonetisation is an act of cancelling the legal tender status of a currency unit in circulation. The first demonetisation was on 12th January 1946, second on 16th January 1978 and the third was on 8th November 2016. The main objective of Demonetization was to remove the black money, corruption and to make the cashless economy .This paper tries to explain the advantages of Demonetization and some disadvantages faced by the citizens of India.

Keywords: Demonetization, Black money, Corruption, Cashless.

INTRODUCTION

Demonetization is a situation where the Central Bank of the country (Reserve Bank in India) withdraws the old currency notes of certain denomination as an official mode of payment. Means old notes or even coins must be retired and replaced with new ones. India has already gone through the situation of demonetization twice before 08/11/2016(Tuesday). Currency notes were demonetized on three occasions in India:

- In 1946, when the RBI demonetized Rs, 1,000 and Rs, 10,000 notes
- In 1978, when the Government demonetized Rs, 1,000, Rs. 5,000, and Rs. 10,000 notes
- Finally in 2016, when the Government demonetized Rs. 500 and Rs. 1,000 notes.`

Firstly in the year of 12th January 1946 (Saturday) and secondly in the year of 16th January 1978(Monday) and in both cases, the goal was to combat tax evasion via "black money" held outside the formal economic system. On November 8, 2016, The Prime Minister Narendra Modi announced the demonetization of the currency notes of Rs. 500 and Rs. 1,000. Further, the government gave people a period of around 2 months to deposit all currency notes of the said denomination with any bank. However Demonetizations has certain objectives to work on :-



OBJECTIVES OF DEMONETIZATION:

- Removing Black Money From Country
- To combat corruption and crime like tax evasion.
- To transform Indian economy into cashless economy.
- To combat inflation
- To facilitate trade

- Stop terror funding

ADVANTAGES OF DEMONETIZATION:

- ✓ **Demonetisation will completely destroy the black money** - Around 3-5% people have black money in India. They have Billions of black money held in their houses or unaccounted cash on which no tax has been paid. This money is earned by corruption and illegal businesses. Due to demonetization government can track the defaulters. It will leave no option to these defaulters either they have to disclose the money or let it be destroyed.
- ✓ **No more funding of Terrorist Organizations** - It will stop all the funding to illegal money laundering, arms smuggling, gambling etc. Because of demonetization all the Terrorist activities will be stopped due to lack of funding.
- ✓ **Big increase in Tax Revenue** - With this bold decision India can see great growth in tax revenue. The benefit is people are disclosing their income by depositing money in bank accounts. Government will get a good amount of tax revenue. It will be used in transformation of country by providing great infrastructures, better hospitals, Schools, roads and many facilities to poor people.
- ✓ **Increased Saving**- When currency is demonetized, people tend to deposit their cash with a bank and store less physical currency at home. This helps them save more.
- ✓ **Direct Boost to the Jan Dhan Yojana:** Jan Dhan Yojana accounts have a very high number of unused accounts. These accounts have suddenly seen a spike in usage, and individuals who've had these will finally start using them and it might help them in inculcating banking habits.
- ✓ Corruption may decrease.
- ✓ **Reduction of lending rates**- Availability of cheap deposits in financial institutions means that people can borrow money at low interest rates.
- ✓ **The move to digital currency**-Some commentators argue that in the future, we will all be using digital currency, such as bitcoins. If this is true, then one advantage of demonetization is that it will help to build cashless economy.
- ✓ **Growth in Country's GDP**-Due to low lending rates, improved revenue collection, and growth in savings and deposits, a country that has demonetized is likely to see an improvement in the growth of its GDP.

DISADVANTAGES OF DEMONETIZATION:

Demonetization has a big impact on Indian market and citizens. **Some of it's disadvantages are as follows:-**

- ⊗ **Little cash in circulation**- Cash crunch is a major disadvantage of demonetization due to the unavailability of small currency denominations, an issue which makes it difficult to make small purchases.
Panic- Not everyone understands the essence of demonetization and, therefore, such an exercise is likely to result in panic among a section of the population. Even People flocked the banks to change their currency and stood in long lines in front of bank and ATMs for hours to draw their money.
- ⊗ **An avenue for fraud and corruption:** Some people are likely to take advantage of lapses in the financial system to engage in fraud and corruption when exchanging currencies
- ⊗ **Disruption of Trade**- The normal trading activities may be disrupted by this process since it takes time for consumers and suppliers to adjust to the new monetary policy.
- ⊗ **ATMs have to be re-calibrated**- ATM machines have to be re-calibrated to accommodate the new currencies. It will result in additional costs for banks and also inconvenience customers.

BJP spokesperson Meenakshi Lekhi had said in 2014 that members of the public who were often illiterate and had no access to banking facilities would be adversely affected by such a policy.

SUGGESTIONS:

Demonetization alone can not fight to remove the black money, there should be some other plans and ideas to help the poor citizens of India. Like educating the rural areas people, to make them know about the demonetization and it's impact. Educate everyone about the use of e-wallet, Debit and Credit cards. Camps can be held at villages and rural areas even in urban areas. Swipe machines should be provided in every sector of business.

CONCLUSION:

Indian government took a bold decision of Demonetization, Demonetizing the old currency can be considered as a surgical strike against the undeclared or black money in the history of Indian Economy. Although demonetization is very helpful for growth and development of Indian economy. But the poor people have no knowledge about it and they are suffering a lot, so the government should make it easy for them however the Government is taking all the necessary steps and actions to meet the currency demand and ensure the smooth flow of new currency.

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