



## DEMONETIZATION – IT'S EFFECT ON ECONOMY

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### Abstract

*On 8<sup>th</sup> November 2016, our honorable Prime Minister Shri Narendra Modi announced the demonetization in live televised address to the country. Mr. Modi announced that the Rs.500 and Rs.1000 denominated currency notes will cease to be legal tender. He also announced the issuance of new Rs.500 and Rs.2000 notes. The step was taken to tackle black money, to eliminate fake currency and to control corruption. This paper discusses the reasons for demonetization and also the positive and negative effects of demonetization.*

**Keywords:** *Demonetization, black money, hawala transactions, counterfeit currency.*

### 1. History:

The word “Demonetize” was used by the ‘French’ in the years of 1850-1855. Since then many nations have used the word demonetize and the policy of demonetization with immense restriction and discomfort, for it disrupts economics and population at large.

Indian government demonetized bank notes in the past. First time on 12<sup>th</sup> January 1946, second time on 16<sup>th</sup> January and third time on 8<sup>th</sup> November 2016.

In the first time the policy did not succeed. Because out of total issue of Rs.1439.7 million of the high demonetization notes, notes of the value of Rs.1349 million were exchanged. So notes worth only Rs. 90.7 million were demonetized, not having been presented. The policy became ‘Conversion’ policy instead of ‘demonetization’.

In the second time, the demonetization of high denomination bank notes was also not succeed . Because the step could not control illegal transactions and anti-social elements.

In 2012, the ‘Central Board of Direct Taxes’ has recommended against demonetization , saying in a report that ‘demonetization may not be a solution for

tackling black money or economy, which is largely held in the form of unaccounted properties, bullion and Jewelry.”

On 8<sup>th</sup> November 2016, the Indian government decided to demonetize the Rs.500 and Rs.1000 banknotes. There is also an announcement made about the issuance of new Rs.500 and Rs.2000 banknotes.

## **2. Definition:**

Demonetization is a step of stripping a currency unit of its status as legal tender. In other words Demonetization is a step of ending something (e.g. currency, gold or silver) as no longer the legal tender of a country. Demonetization for us means that “Reserve Bank of India” has withdrawn the old Rs.500 and Rs.1000 notes as an official mode of payment.

## **3. Reasons of demonetization in India:**

There are so many reasons for demonetization. Nations demonetize their currency to fight inflation, to fight corruption and to control illegal transactions.

According to our Prime Minister Mr. Narendra Modi the purpose of demonetization is as under.

1. To tackle black money in the economy.
2. To lower the cash circulation in the country which “is directly related to corruption in our country.”
3. To eliminate fake currency and dodge funds which have been used by terror groups to fund terrorism in India.
4. The move is estimated to scoop out more than Rs.5 lakh crore black money.

## **4. Positive effects of demonetization in India:**

We can say that by the process of demonetization we are going to revolution the economy in near future. We can have following positive effects on our country.

### **4.1 Black Money:**

By the move of demonetization, all black money will be out, which is illegal stored. This money will either be deposited into the banks with penalty to or be destroyed.

### **4.2 Hawala Transactions:**

Hawala transactions are made through black-money. By demonetization black money is being wiped out from the market, which stopped hawala transactions.

### **4.3 Counterfeit Currency:**

Demonetization has helped us to stop counterfeit currency using for the terrorism purpose. Demonetization decision to pull out old Rs.500 and Rs.1000 notes and replace them with new Rs.500 and Rs.2000 notes has completely stopped the circulation of counterfeit Indian currency.

### **4.4 Terror Finance:**

By the move of demonetization black money has been controlled, hawala transactions have been stopped and counterfeit Indian currency has been stalled. By doing this all doors for terror finance are closed.

### **4.5 Kashmir Unrest:**

By stopping hawala transaction we have seen decrease in violence in Kashmir.

#### **4.6 Real Estate Sector:**

Real estate sector is built on black money. Almost 60 percentage of real estate transactions are in black. Demonetization step will stop the black money flow into real estate sector. It will be resulted into price correction in the real estate sector.

#### **5. Negative effects of demonetization in India:**

The unexpected demonetization process has following negative effects.

##### **5.1 Fall in demand:**

Because of demonetization there is a shortage of cash in the economy which resulted into a fall in demand in various sectors.

##### **5.2 Problems for lower and middle class people:**

The demonetization of bank notes has been made for those who are black money holder, but in fact by this move laborers, workers, farmers who do not have black money have suffered a lot.

##### **5.3 Detection of black money:**

It is a simple truth that people will never hold their black money in cash. They will hold it through gold, assets or through other way. So the main purpose of demonetization has not been achieved.

##### **5.4 Increase in Fake currency:**

This move has stopped counterfeit currency. But the loophole is that the currency counterfeiters can print fake 100 rupee notes. So we are not sure about elimination of fake currency.

#### **6. Conclusion:**

At the end of the above discussion we can conclude as below.

##### **6.1 It is a bad execution of a good idea:**

The decision of demonetization was a good idea, but the government could not administrate it well. There was no proper administrative method.

##### **6.2 Pain of honesty:**

According to a Panchatantra - Story, "To get the crocodiles out, a man with good intensions started pumping water out from a pond. Small fishes also living in the water were highly inconvenient breathing in only 15% remaining water but were happy as they were sure that they would get the crocodiles, and with the new rain cycle, they would live happily ever after. The crocodiles however, are comfortably living on the land and are also waiting for the next rain cycle. Moral of the story is that the prime target has been missed who are black money holders, and the honest people suffered a lot.

##### **6.3 The Original purpose has been changed:**

The original purpose of the move is to tackle black money in the economy. But in the end the government taught as to adopt "Cash-less system". So it indicates the mishap.

There is a good article in Times of India by Chetan Bhagat. This article sums up the demonetization very beautifully. We Indians have no choice to believe the intent of the politicians, instead of looking at implementation part.

We can see that nowadays people of our country are blindly praising the demonetization decision of our PM Mr.Narendra Modi. There are so many “Bhaktas” (devotees) of Mr.Modi, but they forget to evaluate the decision, they forget to ask questions and are hoping for miracle.”

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