



Demonetization in India

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ABSTRACT

Demonetization refers to Withdrawal of a particular form of currency from circulation. Demonetization is necessary whenever there is a change of national currency. When any Government withdraws the legal tender rights of any denomination of currency, it is known as demonetization. On Nov. 2016 the currency is demonetized third time by the present Modi government. This is the bold step taken by the

govt. for the betterment of the economy and country. The show is still on. But, between this the Government again provided the scheme of pay tax and converts your black money into white money scheme launched.

Keyword— Demonetization, Corruption, Black Money

Objectives:-

The main objective of this paper is to study the impact of demonetization on 8th Nov. 2016 by the present government on Indian economy and system. The government claimed that this demonetization is required for the following reasons:-

1. For stopping the funding of terrorism.
2. For facing the problem of fake Currency.
3. For making the black money worthless.
4. For reducing the corruption, etc.

Methodology:- The paper is based on the secondary data. The secondary data was collected from various published sources like reports, magazines, journals, newspapers and the like etc.

I. INTRODUCTION

When any Government withdraws the legal tender rights of any denomination of currency, it is known as demonetization. In terms of value, the annual report of Reserve Bank of India (RBI) of 31 March 2016 stated that total bank notes in circulation valued to 16.42 lakh crore of ₹ 500 and ₹ 1000 banknotes. As per the press release of RBI dated on 28/11/2016, the total amount of old notes (which are now withdrawn) of value of ₹ 8.11 lakh crore has been deposited by the customers till 27/11/2016. Banks started accepting deposits from 10th of November but within a period of 18 days around half money has been received by the banks.

II. CHALLENGES FOR INDIA

Demonetization is affecting common people more than black money holder. But it is a good step for the future purpose. This may not be able to stop the corruption but it will reduce it. Though the common people are suffering many problems due to this. But it is helpful to them only. Because everything that happens in a country it mainly affects to common people. So soon this small steps taken will lead to a great development for our country.

Fake currency is highly circulated in the economy by the anti nation elements. Demonetization will definitely remove fake currency from the economy. But, it will have a short run impact. Because, the expert people will again print the new fake currency. In long run the problem may appear same as it was before demonetization.

I opine that in long run it will not be effective to reduce the **corruption**. Because, people will not afraid from keeping black money. They will quote the previous experience. People will set an example that we can take advantage of conversion scheme of Government.

Impact of Demonetization

1) Black Money and Corruption:- By demonetization, Black money will be taken out of Indian system. As predicted by ICICI Securities Primary Dealership the government's plan to remove INR 500 and INR 1,000 notes from circulation will disclose up to INR 4.6 lakh crore in black money. Corruption will also be automatically reduced by removing black money from economy.

2) Real estate:- Another impact of the demonetization would be reduction in cash transactions in real estate. This is likely to reduce to real estate prices and make it affordable. In the short term, prices of real estate would

come down for the same reason above. There will be fewer suitcases moving.

3) Elections:-Demonetization has shocked political parties. Many states like Punjab and Uttar Pradesh, cash donations are a huge part of "election management". Political parties will find themselves helpless as cash hoards are often undeclared money. So upcoming elections 2017 will be transparent to the some extent.

4) Digital payments:-People adopting online payments system such as Paytm etc. after ban for high denomination currency in India. Digital transaction systems, E wallets and apps, online transactions using E banking, usage of Plastic money (Debit and Credit Cards), etc. will definitely see substantial increases in demand. This behavioural change could be a game changer for India in the near future.

5) Fake Currency:-The impact on the fake currency would be more significant. Many dealers with the existing counterfeit notes would be trapped as they would have to take the notes to the bank and have better chances of getting their racket exposed. Thus, they have only option to destroy their notes and incur losses.

6) GDP:-The sudden decline in money supply and increase in bank deposits is going to adversely impact consumption demand in the economy in the short term. This, coupled with the adverse Impact on real estate and informal sectors may lead to lowering of GDP growth.

7) Decease in Interest Rates:-We will see a lowering interest rates for education loans, home loans and medical loans very soon. It will make higher education and medical facilities more accessible. This change is hard to undo because if any subsequent government increases loan it will suffer huge backlash.

III. CONCLUSION

Demonetization is good but our financial system should be ready for this change. This decision of govt. will definitely fetch results in the long term. From an equity market perspective, this move would be positive for sectors like Banking and Infrastructure in the medium to long term. It will be too early to come at any conclusion regarding the success or failure of this demonetization in Indian Economy. But, with the current inputs we can say that Indian Financial System and its regulators were not ready for this change.

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