

Demonetization: Need and its impact

Madhu Mehta

Assistant Professor, Department of Commerce, MMPG College, Fatehabad, India

Abstract

Demonetization means stripping a currency unit of its status as legal tender. It is necessary whenever there is a change of national currency. The old currency must be retired and replaced with a new one. This is the third time when the currency is being demonetized by respective Government on 8th November, 2016. Earlier it was done first time on 12th January, 1946 and second time on 16th January, 1978. The paper discusses its need and impact in the economic development not only in India but rest on rest of the world too. This move was targeted towards tackling black money, corruption, terrorism and promoting cashless society. The major impact on Indian economic system was that consumption marked up to 56% of India's GDP, which results in slow down of growth. However it has some positive impacts on E-Commerce and Fin-tech sector including online retails, electronic transfer providers, mobile wallets, payment banks etc.

Keywords: demonetization, currency, gross domestic product, black money, India

1. Introduction

The dictionary meaning of Demonetization is "ending something (e.g. gold or silver) that is no longer the legal tender of a country", one needs to see if there is anything more to the word. When a currency note of a particular denomination ceases to be a legal tender it is termed as demonetization. But our Government is only replacing the 500 rupees notes with the new ones and saying goodbye to 1000 rupees notes, it would be appropriate to call this move as 'phasing out', 'nullify' or 'scrapping'. It is necessary whenever there is a change of national currency. The old unit of currency must be removed and substituted with a new one. This is the bold step taken by the government for the betterment of the economy and the country for its future growth and development. In this paper I want to discuss the impact of recent demonetization on the Indian system. The Government of India announced that the rupees 500 and rupees 1000 demonetized currency notes will cease to be legal tender. The move was targeted towards tackling black money, corruption and terrorism. After initial euphoria, questions began to emerge. What are the costs of this demonetization? Will it be effective if people can still create new black money thereafter? Will it increase the GDP? Will it increase inflation? What about tax revenues? We look for answers. The sectors which are affected are Micro businesses, E-Wallet businesses, online retail stores and so on. This study is based on secondary data collected from different newspapers and online sources mentioned in the references.

1.1 Objective

Demonetization is the crucial topic which was and is discussed in every corner of not only in India but in the whole wide world. Demonetization is done to curb black money, to control corruption, controlling terrorism and make a move towards cashless society and Digital India. The article lays emphasis on the need for this sudden change and also focuses on how the current scenario should managed and improved.

1.2 Need of demonetization in India

A major decision hits all the citizens of the country very badly because overnight all the money people are having become a piece of paper which has no value from now. Now the question arises if it hits so badly then what is the need for it? Is this all of sudden? The answer is 'NO'. Various steps has been taken before the execution of this controversial decision. Firstly Govt. created urge in the people for opening of bank accounts under Jan Dhan Yojna. They were asked to deposit all their money in the above scheme and will make their future transactions through banking only. Secondly, People have been given an opportunity for the declaration of undisclosed income and had given the deadline (30th Oct, 2016) for the same so that Govt. was able to whisk a huge amount of undisclosed income. Lastly, now is the time for overwhelming turn as a part of nation building. This is done for curbing the black money, corruption and fake notes up to some extent. Due to lack of funding, there will be no arms smuggling and all the terrorist activities will be slow down. This initiative was claimed to curtail trafficking of drugs & smuggling across borders. Another very reason behind this rationale is to promote 'Cashless Society' and creates Digital India. The supply of currency notes of all denominations has hiked by around 40% during the period 2011-2016 and the 500 and 1000 rupee notes has increased by 76% and 109% respectively due to forgery. This cash is used in various illegal activities so there is a need to mark full stop on them. Lastly, the need for demonetization is aroused to make public accountable for every rupee they possessed and pay tax on it.

1.3 Impact of demonetization

Modi Government decision regarding 500 and 1000 rupee notes has created shortage of cash in the system which leads to a lot of troublesome for the general public and commercial sectors. This also creates shortage of lower denomination currency of 50 and 100 rupee notes. This will result in many negative impacts on agriculture, small businesses, transportation, real estate, luxury goods, commodities market,

equity market, consumer durables and non-durables etc. In short to medium-term, large denomination purchases rather than through brick and mortar outlets. This will have adverse impact on retail sectors. Real estate sector is also having negative impact in the medium-to long-term, specially in the repurchase market. ATMs were handicapped because of acute shortage of cash. Not only this but more than of the ATM s were not working at all. Many deaths were reported by standing in the queues for very long hours. Even the bank staff were faced various problems by counting thousands of old notes. US president election along with demonetization cause a decline in stock exchange indices. Even on the next day BSE Sensex lost about 1,689 points and NIFTY by 541 points. The very first four days after demonetization proved that nearly Rs. 3 trillion in the form of old currency notes of 500 and 1000 being deposited in the banking system and about Rs.500 billion had been distributed through ATMs, bank accounts. Demonetization will cause deflation as people who are having a lot of money but earned through illegal means would be afraid of using it as Income Tax department is having no information of it. Now loans will become easier and interest rates comes down because banks are now having more money so they can lend more which in turn increases the money supply but there is a reduction in monetary circulation. Above facts contributes to the negative side of demonetization but this doesnot mean that there is not any positive impact of the same. Various sectors have positively marked because of debarring 500 and 1000 rupees notes such as net and payment banks, E-marketplace, mobile wallets, payment gateways, online retail, cards etc. We could also see some appreciation of domestic currency in forex markets because of notes in circulation will decline. Internationally, Government is likely to get a thumbs up for this move and other countries will get an idea to curb black money from its roots.

2. Conclusion

After the thorough analysis, demonetization does not seems to be easy activity. However this step will be in the long term interest of our country but for this Government needs to take all necessary steps so as to ensure the smooth flow of currency exchanges. Government must prepare its plan clearly and define their policies and formulate their strategies precisely as the success of this move totally depends upon government machinery, awareness of general public and the political system of our economy. We salute the government and those hidden brains of our country who brought this decision.

3. References

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