

## **A CASE STUDY OF DEMONETIZATION IN INDIA**

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### **ABSTRACT**

Demonetization is the act of decorticate a currency unit of its status as legal tender. It occurs whenever there is a change in national currency. Withdrawing units of money from circulation is demonetization; units of money are denied the status of legal tender. Demonetizations are defined as a process by which currency units will not remain legal tender. The currency notes will not be taken as valid currency. Demonetizations are a step taken by the government where currency units are ceased of its status as legal tender. Demonetization is a basic condition to change national currency. In other words, demonetization can be said a change of currency where new units of currency replace the old one. It may involve the introduction of new notes or coins of the same denomination or completely new denomination. The currency has been demonetized thrice in India. The first demonetization was on 12th January 1946 (Saturday), second on 16th January 1978 (Monday) and the third was on 8th November 2016 (Tuesday). The study attempts to understand meaning and reasons of demonetization, the sector wise impact of demonetization. This study also gives an insight into the positive and negative impact of demonetization on Indian economy.

**Keywords: Currency, Demonetization, Cashless transaction, Digital economy, Indian Economy.**

## **INTRODUCTION:**

Demonetization was a bold step by the Indian government which was introduced on 8<sup>th</sup> November 2016 with the effect from the next day, all the 500 and 1000 currency notes lost the status as a legal tender which accounted for almost 86% cash in circulation. The main aim of the demonetization was controlling the corruption, black money and currency counterfeiting.

Demonetization means withdrawing the legal tender rights of any denomination of currency. Units of money have deprived the status of legal tender. Demonetization is an act of taking away the legal tender rights of any currency. The units of currency will not be considered as valid currency. Demonetization is the process of ceasing a unit of money of its status as legal tender. Demonetization is a necessary condition for changing the old currency with the new units of money... It may involve the introduction of new notes or coins of the same denomination or completely new denomination. The currency has been demonetized thrice in India. The first demonetization was on 12th January 1946 (Saturday), second on 16th January 1978 (Monday) and the third was on 8th November 2016 (Tuesday). The government believes that this currency ban is required for the four main reasons. To control inflation, to fight against corruption, to remove counterfeit currency and to discourage the cash transaction. Country. The government needed to keep the decision secret so that the tax evaders would not be aware of this clean-up mission before the announcement of demonetization took place

## **LITERATURE REVIEW**

Shanbhogue Girish, Kumar, A. Prashanth, Bhat, Swathi and Shettigar, Chethan (2016) defined currency ban as a move to stop counterfeit bank notes were allegedly used for terror financing, as well as a surgical strike to black money and corruption in the country. Demonetization leads to cash shortages in the country which proves detrimental to a number of small business, agriculture and transportation. The shortage of cash led to chaos and most people faced problems to exchange their banknotes due to long queues outside banks and ATMs across the country. This demonetization step was proved to be the biggest attack on black money and corruption in the history of Indian Economy and a movement toward digitalization. It also

encourages digital payments. They concluded that Demonetization is advantageous in short, medium and long-term. Muthu Lakshmi, E. Kamatchi (2017) in her paper entitled “Impacts of Demonetization on Indian Economy Issues & Challenges” states that when the money is withdrawn from the economy, the country will not be benefited in short term. On the other hand, if the money paves its way into the economy it would have a positive and meaningful impact. She also states that the demonetization move, on one hand, was a serious attack on black money, corruption, hawala transaction, counterfeit currency and terror financing. On the other hand, it had a negative impact on various sectors like commodities and real estate. Shah, Ayash Yousuf (2017) stated that Demonetization is one of the major steps in fighting against corruption, black money and terror funding. However, this decision was taken without proper preparation and it adversely impacted the public. Without printing enough new currency notes 86% of the currency notes were withdrawn thrashing all market transactions. Only common people had to face problems exchanging their notes, not the people who were targeted. With an intention to rid the country of black money and dig out tax defaulters and black money holders, the government has taken the step to demonetized Rs 500 and Rs 1000 notes. The sudden announcement of demonetization and failing to plan properly has created chaos among the general public. Common people are facing problems buying with no money in their hands, wasting their time standing in endless queues could have easily been avoided with advance planning. Activities. It is shown that huge money is being deposited into the bank accounts which are more than specified limits and are subject to penalties and taxes. Usage of e-wallets, debit and credit card has been increased tremendously and this will create better cashless infrastructure.

## **FINDING:**

### **Reasons of Demonetization:**

**Black money:** Demonetization was a bold and revolutionary action taken by the government of India to curb black money and one that will have the deep impact on the parallel economy in the country. Pockets and persons with black money can be identified with this move. A few businesses like property dealers, jewelers, foreign currency dealers, private money lenders generally hold huge amounts of unaccounted money in form of currency notes. Such unaccounted money had created a parallel economy in the country. Such illegal money has reached the bank accounts through direct or indirect channels.

**To hit the fake currency rackets:** Fake Currency Notes have been wasted by the demonetization. Withdrawing highest currency notes out of the economy will have a serious impact on the fake currency syndicates, thus putting an end to the terror funding in Jammu and Kashmir, the fake currency with racketeers have been left in vain, and new currency notes with high security; making a counterfeit impossible. demonetization was a surgical attack on a fake currency circulating in the economy. Demonetization has converted those fake currency notes into a mere piece of papers.

**Online transactions:** Demonetization's motto was to encourage the cashless/digital economy. More and more cash-less or less-cash transactions will lead to more disclosure of income which will increase the direct tax collections. With a reduction in cash transactions, alternative forms of payment will more in demand. Electronic mode of payment like online transaction, payment through applications, E-wallets E-banking, usage of debit and credit cards etc. will surely see the substantial increase in demand

**To hit Maoists:** This step actually made money with Maoists worthless. As reported Maoists had hoarded over Rs.7000 cores with them at Baster in Chhattisgarh. All such currency is now nothing but pieces of papers.

**Rise in GDP:** Though demonetization has negatively impacted sectors such as real estate and property, construction, and household consumption in general, it is believed that long-term benefits for GDP growth will outweigh the short-term transitional impact. We are now heading towards a 9% GDP growth by FY2018-19.

#### **BENEFITS OF DEMONETIZATION INDIA :**

##### **1. Maximizing savings:**

After currency is demonetized, peoples tend to deposit their money with a bank and store less physical currency at home. This facilitate them to save more money.

##### **2. Lower lending rates:**

With currency demonetization money moves from people to banks and various financial institutions, therefore, there is a better circulation of money. Further banks and financial institutions have a lower cost of funds which provides into lower lending rates.

**3. Better economy:**

Since demonetization induces peoples to deposit their money with the banks, therefore there is a higher circulation of money in economy, for this reason the government receives more taxes and revenues. It can undertake more development project in the country. It leads to a better performing economy.

**4. Controlling or curbing anti-social activities:**

Usually anti-social elements like smugglers or terrorists use cash as a mode of transaction. When the government decided to demonetize the 500 and 1000 rupees notes, they were the highest demonetization notes in circulation. By demonetizing, the government forced these anti-social units to find ways to get rid of the old notes. It helps to government an opportunity to get a better control over the uncounted money in the economy and curb anti-social activities.

**5. Reducing counterfeit currency notes:**

During demonetization, peoples deposit all old notes with banks who check if the notes are genuine or counterfeit before accepting them. Therefore, this allows the government to weed out counterfeit notes circulating in the market.

**STRATEGIC BENEFITS OF DEMONETIZATION IN INDIA:**

There is Eight strategic benefits of demonetization in India they are:

- Businessmen paying tax correctly on time.
- The cost of consumer goods will fall down.
- Jandhan accounts are processing.
- Growth of banking industries and financial institutions.
- Minimizing HAWALA.
- Increasing small vendors.
- Huge amount of black money deposited till date.
- Development inn infrastructure and capex cycle.

## **CONCLUSION:**

The move by the government to demonetize old currency and replacing it with the new one has taken the country by surprise. The move was an effort to handle the threat of illegal money, corruption, terror funding and counterfeit currency. The decision regarding demonetizing the old currency was considered as a surgical strike against the undeclared money in the history of Indian Economy, it may be a move towards the cashless economy.

The demonetization is followed by a liquidity crunch in the country, banks and ATMs across the country faced severe cash shortages with detrimental effects on various small business, agriculture and transportation. Currency ban by the government of India created chaos in short-term as most people with old currency notes faced difficulties exchanging them in long queues outside banks and ATMs across India. The total value of old currency notes in the circulation was to the tune of Rs 14.2 trillion, which constitute about 86% of the total value in circulation. The black money has either been accounted by paying heavy taxes and penalties or has reached the bank accounts through direct or indirect channels.

Demonetization would bring a positive impact on Indian economy as it encourages the digital mode of payment like E-wallets and apps, online transactions using E-banking, usage of plastic money etc. Demonetization is beneficial for the economy in the medium to long-term.

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