

Demonetization of 2016 and its Impact on Indian Economy



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Demonetization is the act of cancelling currency units of its status as legal tender. It occurs when there is a change in national currency. The current form or forms of money is removed from the circulation and is replaced by new notes and coins. Or new currency. It is defined as a process by which currency units will not remain legal tender. The currency notes will not be taken as valid currency. The central banks follow a practice wherein older currency notes are recalled and new currency notes with enhanced security features are issued so as to overcome the menace of counterfeit currency. Demonetization has occurred thrice in India, once in 12th January, 1946 another one in 16th January 1978 and lastly on 8th November, 2016. The highest valued notes that was demonetized is Rs10, 000 in the year 1938. The demonetization of 1946 did not last long and did not affect many people's 1000 and higher valued notes were demonetised in 1946. Rs10, 000 notes were again introduced in 1954. Gujrati Prime Minister Moraji Desai demonetised the notes of Rs 1000 and higher value to curb out black money from the market. In November, 2016, Indian Prime Minister, Mr. Narendra Modi banned the high denomination notes of Rs1000 and Rs 500 to reduce corruption and money laundering. The whole country especially the rural households were in an utter shock due to this sudden monetary reform.

On 8th November, 2018, Modi Government announced demonetization of Rs500 and Rs 1000 notes and new notes of Rs500 and Rs 2000 will be introduced. The Government of India claimed that it will reduce terrorism, use of black money and other illegal activities. Although there was no official announcement by the Government, the experts say that the process of demonetization eight to ten months prior to the official announcement of demonetization, that is from the early January or March. According to the RBI report, Rs15.31 lakh crore returned to the banking regulator which is higher than Rs 10 lakh crore that the Government expected because only the honest people would go to the bank to deposit the cash, people who have black money would not dare to go to the bank since they would be scared to face the questions like from where they got all cash they're coming to deposit. This incident created a spark in the economy as there was a shortage of cash. People had money in the bank but not in their hand for daily use. Former Finance Minister, P. Chidambaram said that the country has to pay huge prices for the demonetization by the way of jobless, closure of industries and GDP growth. This demonetization is Prime Minister Narendra Modi's attempt to use bribery so that India may shift toward digitalized money transfer which is more traceable and taxable. On 9th November, 2016, the banks were closed on the first public day. The Government announces that if anyone deposits an amount of Rs 2.5 lakh or more to the bank, they have to face tax and possible penalties... The Government also announces that all the major banks should extend their working hour till 8pm. On 10th November, the banks re-opened for business while the ATMs remained closed. There was a long queue in front of all banks, as people want to deposit and exchange the cancelled currency notes. On 11th November, the ATMs opened but soon ran dry as

people started withdrawing maximum amount of money. On 13th November, the exchange limits were increased to Rs 4500 from Rs 4000 and ATM withdrawal increased to Rs 2500 from Rs 2000, weekly withdrawal limit has been raised to Rs24000 from Rs2000, and maximum daily withdrawal of money of Rs10000 has been cancelled. The Government further extends the date of acceptance of Rs500 and Rs1000 till 24th November. Cash withdrawal limit for current account holders is raised to ₹50,000 per week, and charges on ATM transactions are further suspended till 30 December. The State Bank of India had collected Rs 1, 14,139 crore in the first week of Demonetization. A new currency note of Rs 500 has already started being circulated in the economy. The press releases that the RBI stated that the banks have received a deposit of Rs 1.5lakh crore and has exchanged Rs 33,006crore. The Government announces that the taxpayers, who deposited abnormally huge amount of money, would receive a notice of explanation, on 31st January, 2017. The Indian Government on 31st March notifies that the Specified Bank Notes Act, 2017, which imposes a penalty of Rs 10,000 to those who still hold onto the junk notes of Rs500 and Rs1000. At the end of June, the banks and the post offices were asked to deposit the collected junk notes to the RBI by July. Rs 500 and RS200 demonetization notes were issued by the RBI on 25th August, 2017.

However this game of demonetization of making India a digitalized country was short-lived. People like vegetable sellers or the gardener or the person who works in our house always prefer and happier using cashes than digitalized payments. There was also a huge loss of business as there was a lack of capital in the formal, market. Many BPL (Below poverty Line) Indians lost their jobs temporarily, they were in huge trouble. Lack of bank accounts and limited resources, the poor and the needy people of India were the ones mostly affected. The cost of printing of new bank notes rose to nearly Rs 8,000 crore in the demonetization year-2016-17 which is too high. The GDP of India has slowed down after the implementation of demonetization. Due to decrease in consumption function, the demand for domestic commodities fell down. The GDP fell from 9.2 in January, 2016 to 7 in December, 2016. The GDP keeps falling and finally reached 6 in March, 2017. However the Indian Government has strongly mentioned that the GDP of the country will rise soon and no one should worry about that. The implementation of GST (Goods and Services tax) is also one of the reasons for the fall of GDP. The demonetization would have been more successful when the cash is deposited directly into the accounts and then money is allowed to be withdrawn from ATMs and banks. This entire concept would have gone to the next high level if the Government had ordered all the banks to open instant bank accounts to those who don't have any accounts and let the money deposit in those accounts. By following this way, the Government would have got a better picture of the people who owns black money and who owns white money. This would have also provided basic savings account to all the Indians especially the BPL Indians and indirectly lead to increase in digital transaction. The Government had not anticipated the recalibration of ATMs to issue fresh currency notes. Had the Government planned to print new currency notes of Rs 500 and Rs 1000 with same dimension and different look, then the ATMs would not have recalibrated so easily and new currency would have dispensed immediately. Keeping new notes ready before announcing the demonetization move might have helped to lessen the chaos in the banks, long queue snake lines in front of ATMs and would have led better governance. Beside all these negative effects, the promotion of digital transaction and increased tax payers base are one of the major achievements of Indian Government and demonetization move. Earlier in India, there were few digital transaction and most of the Indian population depended upon using cash for day to day purpose and bill payments. With the crunch of cash in the market and various other incentives that were announced by the governing bodies, there was a

surge in the use of digital transaction in India. More digital transaction meant visibility of money held by citizens to the Government agencies to track tax evasion. The terrorist activities in the valleys of Jammu and Kashmir and other places had reduced significantly after the implementation of demonetization. There were very less number of terrorist activities reported as the cash crunch had hit all the operations of all the terrorist groups. Another major benefit is that this move is disclosing and likely to disclose more and more financial crimes and criminals on daily basis and it is an increasing effectiveness and efficiency of our law enforcement agencies. This move is a great tool to catch financial crimes. Indirectly the whole phenomenon is increasing morale of honest people and discouraging the dishonesty. The revenue through direct taxes received by central government has increased by 14.4% and through indirect taxes it is sure to increase by even greater extent. Thus the Government is confident that the country is now with much better financial strength. This strength can be utilized in enhancing budget provision for social sector and welfare scheme.

Only time can judge the success of this move. Demonetization isn't new to the world. The demonetization of high currency notes by government of India is a very crucial step for Indian economy. Though, the currency which was demonetized may differ, the objectives largely have remained the same i.e. to counter inflation, black money, stop illegal activities. The decision of demonetization might have been hard for the general populace of the nation, nevertheless it was also necessary. It's better to be in long queues in front of banks for a brief period of time, rather than to leave the nation at mercy of foreign conspirators. Though, some factions may criticize the move as a bad decision and a jolt on economy; nevertheless, it was necessary considering naxal funding, terror funding and unaccounted money that was circulating in Indian markets. There is a mix response of people of India on this. Amidst many protests against this move, people have shown support and the country is getting back to its normal economic activities. So far, it can be said that this is a historical step and should be supported by all. 99% of the money belongs to the demonetized currency that was being circulated has come back to RBI. Former Prime Minister Manmohan Singh, who is a noted economist, dubs the demonetization move as an 'organized loot and legalized plunder'. However, if we compare the merits verses demerits, it will be safe to conclude that the former outweighs the latter. Even though there is suffering and agony among the masses right at the moment but the forecast is that its benefits will be seen in the long run. The Economic Survey 2017-18 seems to suggest that the negative impact of demonetization on the Indian economy may have finally come to an end. The Economic Survey, which is tabled in the Parliament ahead of the Union Budget, reviewed that the cash-to-GDP ratio had stabilized, which suggested a return to equilibrium. The government is taking all the necessary steps and actions to meet the currency demand and soon the trial and tribulations of the people will be over with the smooth flow of the new currency.

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