

Problems and Impact of Demonetization on Indian Economy

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Abstract: Demonetization means that Reserve Bank of India has withdrawn the old Rs 500 and Rs 1000 notes as an official mode of payment. Demonetization is the act of stripping a currency unit as legal step. On 8th November from Midnight, the Government of India declared that the five hundred and one thousand rupee notes will no longer be legal tender. RBI will issue Two thousand rupee notes and new notes of Five hundred rupees which will be positioned in circulation from 10th November 2016. Notes of one hundred, fifty, twenty, ten, five, two and one rupee will remain legal tender and will remain unaffected by this decision. This gauge has been taken by the PM in order to resolution against corruption, black money and counterfeit notes.. Demonetization is one of the big steps initiated by Government in addressing the various issues like black money, counterfeit currency, corruption,

terrorism etc. This paper focus on the problems due to Demonetization and impacts on the citizens of India and the economy.

Keywords: Demonetization, Indian economy, Black money.

Introduction: Demonetization is the old unit of currency must be expired and changed with a new currency unit. Money is the life blood of every economy. . Demonetization refers to Withdrawal of a particular form of currency from circulation. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be removed and substituted with a new currency unit. The currency was demonetized first time in 1946 and second time in 1978. 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 highest denomination note ever printed by the Reserve Bank of India was the Rs 10,000 note in 1938 and again in 1954. But these notes were demonetized in January 1946 and again in January 1978, according to RBI data. To check undisclosed black money, corruption and fake currency the Government of India on the 8 November 2016 announced demonetization of high denomination currency notes Rs 500 and Rs1000. A new redesigned series of Rs 500 and Rs 2000 banknote is in circulation since 10 November 2016.

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

Demonetisation in India: The Indian government moved as well as decided on November 8, 2016 to demonetize the two notes with biggest denomination i.e. Rupees 500 and 1000 which are in combine recorded with 86% participation in the total cash supply chain of the country. Attempts have been made through this paper to get an

imminent step about the demonetization and its effect on Indian economy. From the date of demonetization, all old currencies which are demonetized will cease to be a legal tender. Such currency cannot be used as money to do any transaction thereafter, but to replace with a new currency. Demonetization is not new to India or to the outside world. Various Governments across the world have decided to ban currency note in circulation to many reasons Objectives of Demonetization:

1. To eradicate black money
 2. To remove counterfeit currency
 3. To fight against terrorism
 4. To stop money laundering activities
 5. To mitigate corruption and so on
- Procedure for Exchange Old notes

Reasons of Demonetization

- To promote a Cashless economy
- To eradicate counterfeit currency
- Eliminate black money
- To combat corruption

- To combat inflation
- Crackdown on terrorism and Naxalism
- To promote a cashless economy.

The Reserve Bank of India laid down a detailed procedure for the exchange of the demonetized banknotes with new Rs.500 and Rs.2000 banknotes of the Mahatma Gandhi New Series and Rs.100 banknotes of the preceding Mahatma Gandhi Series. Following are the key points:

- Citizens will change until 30 December 2016 their old banknotes at any office of the RBI or any bank branch and credit the value into their respective bank accounts.
- Cash withdrawals from bank accounts will be restricted to Rs.10,000 per day and Rs.20,000 per week from 9 November 2016 till 24 November 2016.
- For immediate cash needs, the old banknotes of value up to Rs.4000 per person can be exchanged for the new Rs.500 and Rs.2000 banknotes as well as Rs.100 banknotes over the counter of bank branches from 10

November 2016 by filling up a requisition form along with a valid ID proof.

- All ATMs will dispense bank notes of only 50 and 100 rupee denominations.

Problems due to demonetization:

- Formation of long queues in front of each bank as well as ATM's from morning to evening.
- A considerable cry from the public for getting their money exchanged.
- Little violation at some places by public.
- A few deaths were accounted resulted from stress of not getting money, ultimately due to demonetization of currency.
- Bank employees have to work for longer hours.
- People are unable to withdraw huge amount for the big occasions at their home.
- Swipe machines found to be not working properly at many places whatever may be the issue



- Illiterate or less educated people are not so much aware about the cashless transactions.
- Lack of ATM's especially in rural areas creates big problem.
- In present time, there are still villages/areas which are unbanked even today resulting their routine work disturbed as they have to go to nearby villages or cities to get exchange their notes.
- Most of the cashless transactions are connected through internet which demand proper network that is still inadequate in some parts of India.
- Many illegal agents are emerged who are indulged in exchange of notes with a huge commission resulting in moral degradation.
- As some newspapers as well as news channels reported that back door policy on its way at some places in some banks with the involvement of some bank officials.
- Even some bank employees are found to be guilt indulging in conversion of 'black money' to 'white money'.
- Less educated or illiterate people may have to face security issues in case of providing information relevant to their financial instruments to get transactions done through others.
- Routine work of the people has got badly affected due to this movement of government.
- Overall, Indian economy has to suffer a lot due to lack of exchanged currency with the people.

Impact of Demonetization:

- 1) **Black Money and Corruption** -By demonetization, Black money will be taken out of Indian system.
- 2) **Funding**- Funding for smuggling and terrorism will take a blow since all the money will get back to bank and from there it is easy to identify the fake currency.
- 3) **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.

5) **Gold/Silver and Jewellery** -After demonetization the demand for gold and other precious metals rise greatly. Because people are trying to invest their black money in gold to make it white in short period. But demand for gems and jewellery to decline in the next two to three quarters.

6) **Digital payments**- People adopting online payments system such as Paytm etc. after ban for high denomination currency in India.

7) **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 uproar out in the open. Thus, they have only option to destroy their notes and incur losses.

8) **GDP** -The adverse impact on real estate and informal sectors may lead to lowering of GDP growth.

9) **Lower Inflation** -As the black money goes out of the system the money supply will shrink to some degree. This will reduce inflation rate..

Suggestions:

- Proper tracking of people is must so that needy could be provided money and commission agents could be arrested.
- More and more supply of money in each bank is must to fulfil the demand of our citizens.
- Efforts must be made to make each ATM's operative and money should be there in ATM's.
- There must be effort to equip each government office with cashless machine so that people can make their e-payments smoothly.
- For networking purpose, use of satellites can be made instead on relying on towers only so that people can get benefits of e-payment apps.
- Government must put its best effort to train the people at ground level even up to small villages and for such purpose contributions of government officials, teachers, sarpanchs and panchs can be availed.

- More efforts are needed to provide the huge amount meant for special occasions after getting clarified satisfactory about the same.

Conclusion: Central government's recent decision to demonetize the high value currency is one of the major step towards the eradication of black money in India. The demonetization drive will affect some extent to the general public, but for larger interest of the country such decisions are inevitable. Also it may not curb black money fully, but definitely it has major impact in curbing black money to large extent. The move taken by the present central government as announced by our Honourable PM is the biggest move towards demonetization in Indian history in itself. No doubt, Indian citizens have suffered a lot and suffering to some extent even today. But, undoubtedly they enjoy this and avail the better opportunities in the future.

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