

DEMONETISATION IN INDIA

B.A 6th Sem (H)
Indian Economy-II
Unit-1

INTRODUCTION

- ◉ Demonetization is the act of stripping a currency unit of its status as legal tender.”
- ◉ The idea of demonetization was bought by prime minister of India Narendra Damodardas Modi to stop black money circulation.
- ◉ On November 2016 the government took the great initiative to crack down on black money in the country.
- ◉ The reserve bank of India has withdrawn the old Rs 500 and Rs1000 notes.

OBJECTIVES OF DEMONETIZATION

- To tackle black money in the economy.
- To lower the cash circulation in the country which “is directly related to corruption in our country.
- To eliminate fake denominations and dodgy funds which are being used by terror groups to raise terrorism in India.
- To fight Black-money, corruption, terrorism and counterfeit currency with one single decision.

POSITIVE EFFECTS OF DEMONETIZATION

- ◉ **Break Down of Black Money:**-Black money accumulation affects a country's economy in a negative way. Demonetisation helped in shutting down the trading of goods or services which are ran through illegal means.
- ◉ **Real Estate:**-Real Estate is one of the industry that runs largely on black money. Demonetization has helped in restricting the flow of black money in the real estate sector to ensure a fair system.
- ◉ **Increase in Bank Deposits:**-The circulation of the old currency notes are banned and those who are having these denomination notes were asked to get their money deposited in the banks. Hence, cash amounting of millions of rupees got deposited in the banks.
- ◉ **Paved Way for Digital Transactions:**-Demonetisation effectively turned India towards a cashless economy. Digital payments have doubled since demonetization in most cities in India. This transparent way of transacting leads to more tax payments and less untaxed money circulating in the market.
- ◉ **Curbed Terrorism and Anti-National Activities:**-Demonetization in India put a full stop to the funding of terrorist groups and all unlawful activities. This was an effect of the demonetization in the country. It also curbed the money laundering acts and it was now easy for the income tax department to trace the cash, and made the path difficult for illegal money laundering.

NEGATIVE EFFECTS OF DEMONETIZATION

- ◉ **Liquidity crisis:** Demonetisation gave rise to liquidity problems in the economy as people found it difficult to get sufficient amount of cash to fulfil their basic needs. Marginal section of the society mainly depend on cash to meet their day to day transactions.
- ◉ **Effect on Consumption:** Cash shortage adversely affected the consumption behaviour of people in India. The sales of consumer durables likely to be hampered in short-term, especially sales through unorganised channels are cash purchases. Most of the purchases by retailers are through cash which brought down their value of trade.
- ◉ **Decrease in GDP:** Withdrawal of higher denomination notes reduces the growth rate of the economy. Demonetization reduced consumption pattern, income, investment, etc.
- ◉ **Panic and chaos among people:** The sudden announcement of demonetisation in India caused panic and chaos in the country. It affected the poor section of the society specially the daily wage workers. Many were out of work as their employers could not pay them in cash.

- ◉ Demonetisation has both positive and negative impacts of on the Indian economy. The various positive impacts are such as curbing black money, digitalizing transactions, decreased terror activities, etc. On the other hand, various negative impacts were seen, such as a dip in GDP, major layoffs in the private sector, etc. Because of Demonetization, there was less liquidity and less cash flow in the market.