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The Policy of Demonetization in India: An Overview

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Abstract:

The first instance of demonetization in India was in 1946 and the second demonetization in 1978 when an ordinance was promulgated to phase out currency notes with different denomination, but it was limited when it is compared to 2016. On the eve of 8th November 2016, our Prime Minister Shri Narendera Modi announced the Government of India's decision to cancel the legal tender character of high denomination currency of Rs. 500 and Rs 1,000 with effect from 09th November 2016. Thus the demonetization of the highest denomination currency notes became a part and parcel of the past economic scenario in India and the Government of India implemented the new policy regarding the currency notes with some effective measures to curb the black money, corruption and terrorism.

Keywords: Demonetization, Black Money, Corruption, Terrorism, Fake Currency.

Introduction: The Government of India has introduced the policy and process of demonetization very recently in India. The Government has also observed that fake currency notes of high value are used by the smugglers, terrorists and naxlists to promote their network in the country. That is why here it is an urgent need that all the old currency notes with denomination value of Rs. 500 and Rs. 1000 should be announced as legally tender with immediate effect. Keeping this fact in view, our Prime Minister Shri Narendera Modi announced on the eve of 8th November 2016 that the current policy of demonetization will curb the all evils of black money in the economy. However, some of the economist and scholars criticized this decision; but Prime Minister Shri

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Narendera Modi announced that some preventive measures would be taken into account for the smoothly and effective implementation of the new decision taken by the Government on 08th November 2016.

Objectives of the Study: The present study includes the following objectives:-

- To trace out the history of demonetization in India.
- To point out the need of demonetization in the country.
- To highlight the current scenario of demonetization policy.

Research Methodology: The present study is based on the secondary sources of data collection. The secondary data has been collected from various reputed Journals, Magazines, Newspapers & Reference Books. To pace the study, the researcher has used the observational facts.

Meaning of Demonetization– Demonetization is a very powerful technique to curb black money and corruption in any economy of a country. It has two meanings; first is to divest the value and the second is to withdraw the currency from use. Actually it is an act of stopping of a currency unit of its status as legal tender. The process of demonetization is necessary whenever there is a change of national currency and the old unit of currency must be retired or replaced with a new currency in this process.

In this view on 08th November 2016 a historical step was taken by the Government of India under the leadership of Prime Minister Shri Narendera Modi to stop the use of fake currency and black money for building corruption free India. Consequently, Prime Minister Shri Narender Modi banned the old currency with immediate effect and officially announced to change the old currency with new currency notes of denomination of Rs. 500 & 2000. In the initial phase withdrawal limits through ATMs was kept Rs. 2000 per day per card and Rs 10,000 per day from the Saving Accounts and not more than Rs. 24000 per week. A farmer could withdraw Rs. 25000 from his saving

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account or on his credit card. However, a limit for marriage purposes was announced Rs. 2.50 lakh. Meanwhile, Group - C employees could withdraw Rs. 10,000 as advance from their salary upto 30 November 2016 and all traders and businessmen could withdraw Rs. 50,000/- in a week. Moreover, old currency notes of Rs. 500 & Rs. 1000/- could exchanged upto Rs. 4500 per day from any bank or post office in initial stage or up to 18 November 2016. Furthermore, this exchange of notes was limited Rs. 2000 with their respective bank branches; but the Senior Citizens could exchange the same amount from any bank and the foreigner citizens were allowed to exchange Rs. 5000/- per day on 19th November 2016.

Need of Demonetization: India has implemented the policy of demonetization three times respectively in 1946, 1978 & 2016. The NDA government under the leadership of Shri Narendera Modi had declared before and after the elections of 16th Loksabha in 2014 that the government's priority would be to curb corruptions and black money. To realize this statement, Prime Minister Shri Narendera Modi made a secret plan to stop the use of old currency and to start with new currency notes with effect from 11th Nov. 2016 with denomination of Rs. 500 & 2000. It was observed that currency notes of Rs. 1000 & 500 with high value and mostly used in high amount transactions were a part and parcel of real estate and these notes could be stored as black money very easily. Moreover, smugglers, naxlists and terrorists were using as funding their network against the constitutional system. There were also a large number of fake currencies in the economy. It is a well known fact that black money is the main reason of corruption in India. Our Prime Minister in his speech pointed out that high denomination notes are used to finance corruption in real estate and such as other sectors of Indian economies. It is estimated that black money is found in the form of high value currency, gold, jewelry, land, live assets, stocks and other forms of physical assets. Therefore, is an urgent need to

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implement the policy of demonetization in the country and NDA Government did so to fulfill her commitment made before the election to check the corruption and form a transparent administration in India.

Impacts of Demonetization on Economy: With the implementation of demonetization policy, a boost in bank deposits was observed and with cash transactions impacted by a decrease in cash liquidity and alternative payment methods such as e-wallets, online transactions, e-banking, debit and credit card usage have increased very significantly. Most of the scholars argue that it has enabled the Indian economy cashless and a shift towards an effective cashless economy can be observed. However, it has reduced the liquidity and a sharp decline in the availability of disposable income, affecting spending pattern and consumption trends in the economy have been observed. But these trends will no longer stay and now we can expect that in the long run India's GDP growth rates will increase. The rating agency ***Fitch*** has projected a decrease in India's GDP growth by approximately 50 basis points, other projections peg India's GDP growth rate for fiscal years ending March 31st, 2018 & 2019 lower by approximately 30 basis points. These forecast indicate that an ungrade of India's credit rating for the next two years remains unlikely, although India's current sovereign credit rating of BBB is expected to remain steady in the coming years.

If we analyze the impact of demonetization on the real estate and construction, we can observe that this sector has traditionally been involved a significant level of informal funding in the form of cash transactions. As the result of demonetization a decreased in informal funding sources has been adversely affected and it is thought that the steps taken by the Government of India as demonetization will surely curb the use of black money in the real estate and promote transparent prices in the real estate sector. Therefore, property rate are expected to decrease as a result of fever purchaser with a lower liquidity. However, these measures are expected to adversely

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affect investors in projects with insufficient audit and KYC funding procedures. Now it is hoped that a decline in resale property rates may be expected but it would adversely affect the real estate investor for new projects in long term it would affect the funding in new properties very adversely and all sectors related to real estate, infrastructure and construction, steel and cement industries will badly suffer due to lack of cash transactions and formal funding. To conclude we can observe the following negative impacts on Indian economy:

- Small retailers, traders, paddlers, hawkers, shopkeepers have to shut their shops due to lack of currency.
- Common people had to suffer by banking process and more than 150 people died in 22 days in order to withdraw money from banks or exchange their old currency.
- All bank, post office and police employees over worked and they were suffered a lot of due to excessive pressure.
- Black money holder purchased gold in large quantity and the gold prices became twice or thrice due to black money.
- Black marketers started exchange low value currency notes in exchange of Rs. 500& 1000 in form of old currency.
- This process severely affected travelling, communication, education, entertainment and other services due to lack of cash.
- Uneducated segment of society suffered very much due to lack of knowledge about E- banking and digital payment system.
- Some of the political parties started protest against the process of demonetization and they started ***Bharat Band Abhiyan.*** However, most of the people did not support their efforts and they remained in favor of Shri Narendra Modi's decision of demonetization.

However, common people suffered a lot of due to lack of money;

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but they praised and supported fully the decision made by the Government of India. Therefore, some of the positive impacts may be observed in long term as under:

- It would be beneficial to stop funding for terrorism, naxlism and smuggling in long term or near future.
- A hike in tax collection and government's revenue may be observed in recent days and it is hoped that it would bring transparency in banking system in the coming years.
- It may be observed that in the long run it would curb black marketing and black money holders.
- It has enhanced the capacity of Indian economy to make it cashless in long run.
- It would be helpful to control corruption in various sectors of Indian economy.
- It has made the possibilities of cashless economy and moves the economy towards digital economy.
- It would be beneficial to trap the benami transactions in near future.
- It is hoped that resale value of property will decrease and the use of black money in real estate sector will be reduced by the new system.
- It is also argued that interest rates of home loans and other loans will reduce in near days.

Conclusion: To conclude it can be said that the process of demonetization is a surgical strike of the black economy of India which in long terms would be beneficial to Indian Economy by curbing the black money, corruption and funding for terrorism. Now it is assumed that it would surely change the current scenario of GDP and Growth Rate of the Indian Economy. Moreover, it would a lead India towards cashless economy free from the malpractices preserved and adopted by the key sectors of the Indian Economy such as real estate. It is also likely thought that there would be a spurt in the banking system and all the black money deposited in Jan-Dhan

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Accounts would be disclosed by the transparent banking system and there would be a boost in tax collection which would enhance the liquidity of Indian currency. Consequently, interests of the bank loans will be reduced by the various financial institutions in India in near future. But on the contrary, it is argued that in the immediate term, it would reduce the ability of unorganized sector to deal in cash and it may also see short term to medium term negative impacts on Indian economy and its allied sectors. But this move would surely be positive for key sectors like banking and infrastructure in the medium to long term.

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