

# Demonetization and its Impact on Indian Economy

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## 1. INTRODUCTION

Demonetization is the discontinuity of the particular currency from circulation in an economy and replacing it with new currency. It is an act of stripping a currency unit from its status and introducing new notes or coins of the same denominations. In the present scenario it is the banning of Rs.500 and Rs. 1000 denomination currency notes as a legal tender and its impact on Indian economy. Hence the main objective of this paper is:

### Objectives:

1. To study the purpose of demonetization in India.
2. To study the positive and negative impact of demonetization on Indian economy

## 2. RESEARCH METHODOLOGY

This paper is based on secondary data. The detailed study of the topic was collected from reference books, online journals, to understand the current scenario. Further various websites, journals, business magazines, business newspapers etc. were studied in order to frame the new outlook about the topic.

## 3. PURPOSE OF DEMONETISATION IN INDIA

Demonetisation has taken place thrice in India. The recent one was on 8th of November (Tuesday) 2016. There were multiple reasons behind demonetising Rs.500 and Rs.1000 units of currency.

- To make India corruption free.
- To curb black money
- To stop funds flowing to illegal activities
- To make cashless economy
- To combat people from tax evasion
- To create digital India

Though demonetization policy has been a financial reform step in the country but this decision has its own positive and negative impact on Indian economy.

## 4. POSITIVE IMPACT OF DEMONETIZATION

- 1) Stop the circulation of fake currency: As most of the fake currency put in circulation is of high denomination and demonetisation will eliminate the circulation of fake currency
- 2) Corruption free: The implement of demonetisation will help India to become corruption free. Mostly who indulge in unfair means of earning money will refrain from corrupt practices as it will be hard for them to give classification of unaccounted cash.
- 3) Impact on black money: Demonetisation will help the government to track the black money. It will be easier to government officials to know through income tax return as those who have unaccounted cash will have to show income and submit PAN for legal transactions.
- 4) Stop funding on unlawful activities: Mostly fake currencies were used to fund criminal activities like terrorism. The move of demonetisation will stop their activities up to certain extent.
- 5) Make cashless economy: The policy aimed to make India cashless. It is an economic state where transactions are done through transfer of digital information and not with money in physical form.
- 6) Control Inflation: One of the key advantage of demonetization is that it can control Inflation. Excessive notes in circulation leads to high purchasing power. Due to this policy government will be able to control public spending.
- 7) Improve savings: Earlier it was difficult to raise deposits due to parallel economies. Hence demonetisation will help to reduce the size of parallel economy and improve savings and deposits in financial institutions.
- 8) Growth in country's GDP: This policy will improve the level of GDP due to improved revenue collection, low lending rates and also growth in savings and deposits.
- 9) Income management habits: Due to demonetisation, people will think now where to put their earned income.

People will start to invest their money either in real estates or prefer to deposit cash in banks in order to safeguard against negative effects of demonetisation.

## 5. NEGATIVE IMPACT OF DEMONETIZATION

1) Slowdown in economic growth: Demonetisation reduces the purchasing power of the people in the country which effects the demand for goods and services. Due to low demand business get disturb and hence it slowed down the economic growth.

2) Panic: It was difficult to most of the population to understand the reasons behind sudden demonetisation. This step created panic among citizen in most of the section of the country.

3) Little cash available for circulation: Government has put restrictions on withdrawal on amount from the bank and secondly those who had Rs. 500 and Rs.1000 were unable to spend due to demonetisation. Thus it affected on the circulation of money.

4) Payment and receipts of various bills: Mostly people keep money aside to pay their bills in the future dates. Due to demonetisation it became difficult for them to manage their pending payments and bills receivables.

5) Limitations on withdrawals through bank or ATM: Limitations were put on withdrawal. Sufficient amount was also not available in the ATM. Most of the backward area in states undergone severe financial problems.

6) Social issues: Demonetisation has curbs the social problems. It affected normal living pattern. Many families got affected due to their planning for marriages, festival preparation, and business planning, holidays and so on.

7) Improper data: still accurate data is not given by RBI to declare amount so called black money and also the amount deposited in Jan Dhan Yojna account.

8) Created chaoz and frenzy: Demonetisation created chaoz and frenzy atmosphere among common people. Everyone whether working, non-working, businessmen, traders, labours, housewives, etc. wanted to get rid of demonetised notes. On the other hand inadequate supply of new notes hampered day to day budget and activities of every citizen. Long queues were seen outside every bank and ATMs.

9) Cost of new currency: Banning old currency and printing new against it, increases the cost of making which was beard by the government and beside all these

strategies if the cost is higher than the benefits then this is not worth it.

## 6. CONCLUSION

Demonetisation is beneficial process though it has its negative impact on the country. India's aim to move towards digital currency will be helpful to traders and businessmen to improve their business. Up to certain level the extent of corruption will go down and also it will impact illegal activities. But demonetisation alone can't combat all these big issues, government need to take some strict actions and frame effective policies for the betterment and corruption-free country.

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