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Upshot of Demonetization in India

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ABSTRACT

India is a country with cash economy. Most of the people have savings of Rs.500 in home to cope up with daily needs and to tackle some emergency situations. On November 8th 2016, the Prime Minister Narendra Modi declared the invalidation of Rs.500 and Rs.1000 notes as a measure to curb fake currency circulation, black money and corruption. People were asked to deposit their old notes in banks and get new Rs.500 and Rs.2000 notes. People are struggling to get money in smaller denomination, as none of the shopkeepers neither have change nor give change.

Keywords- cash economy, demonetization, black money, corruption, fake currency.

INTRODUCTION

Quashing of currency status of the country through a profound monetary step as a legal tender is referred as demonetization. The demonetization of the year 2016 in India is an attempt to curb fake notes and black money by reducing the flow of cash in the system. The year 1946 was the first time when demonetization was introduced by Reserve Bank of India to demonetize Rs.1000 and Rs.10,000 notes. Then new notes of denomination Rs.1000, Rs.5000 and Rs.10,000 were introduced in the year 1954. Then the Moraji Desai government in 1978 demonetized these notes.

Situation in India after demonetization

On November 8th 2016 evening, the Prime Minister Narendra Modi declared the invalidation of Rs.500 and Rs.1000 notes as a measure to curb fake currency circulation, black money and corruption. People were asked to deposit their old notes in banks and get new Rs.500 and Rs.2000 notes. The smaller denomination money still exists.

As soon as the demonetization was announced, people with huge cash rushed to jewellery shops and brought gold for high prices. The jewelers sold with extra price but the people were ready to buy as their

only aim was to change all their cash as soon as possible. Some sub registrar office registered land using the demonetized notes.

But due to the reduction in the cash withdrawal limit from ATM and Banks the crowds are high irrespective of weekdays and weekends. Although in the beginning the government has allowed cash exchange of Rs.4000 and then increased it to Rs.4500, suddenly the government has reduced the exchange limit to Rs.2000.

India is a country with cash economy. Most of the people have savings of Rs.500 in home to cope up with daily needs and to tackle some emergency situations. But the government did not print enough notes before demonetizing it. Even after implementing it for more than a week the banks run out of cash. This has created a pathetic situation among the people who stand in long queues and go empty handed. People are struggling to get money in smaller denomination, as none of the shopkeepers neither have change nor give change. Many vendors are using this situation to gain money. If a common man wants change for Rs.500/1000 in an emergency situation, the vendors charge Rs.100/200 as commission and then give change.

As on 21st November 2016, nearly fourteen lakh crore of Rs.500 and Rs.1000 were scrapped by the government. The people have withdrawn Rs.1.03 lakh crore from banks. Rs.33,000 crore was exchanged in bank counters. There is a requirement of Rs.10 lakh crore and it will be met if the government pumps in the new notes at a faster pace. Because the reduction in new notes in banks is creating a tremendous situation among the people as they are finding it difficult to meet their daily needs.

Advantages of Introducing Demonetization

In the country about Rupees Five Lakh Crore black money is existing in the economy. The Narendra Modi government has introduced demonetization to curb the black money. The cash circulation in the country is directly proportional to the corruption rate. So in order to lower the corruption rate the cash circulation in the country has been reduced. The demonetization also helps in eradicating fake currencies and suspicious funds which are mainly used to fund terrorism in the country.

The people at present would develop a mindset to keep money in banks rather than keeping cash at home. And in fact they will start using formal banking channels for their daily needs. The study conducted by the Indian Statistical Institute, Kolkata in 2015 revealed that at any time round the clock there is a circulation of Rs.400 crore of fake notes across the country. The study prompted that fake notes worth Rs.70 crore is pumped into the economy every year. It is evident from the reports of National Crime Record Bureau (NCRB), various agencies seized 2,99,524 pieces of Rs.500 notes and 1,78,022 pieces of Rs.1000 notes. The demonetization will resolve the problem of fake currency and terrorism financing. Though it may be a struggle for the common man for few days, it is an applaudable effort made by the government.

In some places the old barter system (mode of exchange) came into existence. For instance, in Odisha's Jumbo village, 3 Kg of Cauliflower was exchanged for 1 Kg of fish. In order to create a prosperous India for our future generation, we should curb corruption and black money as they

slow down our economy. The major step, the economy which is cashless brings convenience and transparency for every citizen. For a shared vision of digital India this drastic change is very essential. The government is taking measures to make availability of cash among all citizens. There are some remote areas where there is no ATM's. Mobile van is arranged, which facilitate people to exchange money. Around ten lakh rupees are distributed every day. The work is performed by postal department.

Hurdles due to Demonetization

The March 2016 report of the Reserve Bank of India revealed that the currency circulation in the country is Rs.16,415 billion. Out of which Rs.500 notes accounted to 47.30 per cent in value and the Rs.1000 notes account to 38.60 per cent. They constitute 85.90 per cent of the circulated money value. So, it's a very huge amount to be frozen at a single stretch.

The time limit and exemptions have created an advantageous situation to the people with black money. Because they are using poor and innocent people to exchange notes through different methods. Although the government has given reason for demonetization as curbing black money, the actual generation and storage of black money is through foreign currency.

And the other reason told by the government is to curb terrorism, but actually the flow of terrorist fund is through electronic transfers and not cash. Due to the prescribed time limit, the benami conversion cannot be prevented. Actually the current demonetization affect small traders, vendors, daily wage labourers and fishermen are some who are mostly affected. It has created an harassing situation to the ordinary people who want to change their currency. The issue of Rs.2000 denomination notes is of no use for lower and middle class people. If they are purchasing for Rs.600, they should get a change of Rs.1400. It is really hard to get change for Rs.2000 note.

Demonetization is now helping few bank employees to get rich. They help in exchanging huge amounts

by getting commission. That is if a person wants to exchange Rs.10,00,000, the officials are taking 20 per cent commission and giving the balance Rs.8,00,000 to the person. The commission rate varies according to the money. This is done by depositing the black money in defunct accounts (zero balance accounts). On depositing in non-operative accounts, the money will be split and deposited with pre dated entries. In the same way demand draft is another loop hole. Upto Rs.49,000 without giving any proof a person can take demand draft. Hoarders are using this to exchange money. Because upto three months a demand draft can be cancelled and the money will be given back. So the hoarder will get the money in new currency.

Demonetization may lead to the use of excess money to pay tax/penalty or it may extinguish. But mostly there is a high chance of extinguishment because the tax rate and the legal issues are high for unaccounted money. The sudden demonetization has affected the common people. That too as this the time of festivals and weddings, people are facing a tough time. Small trader will have cash in home to business and the people who have less access to banks will also have cash in hand. This has led to a struggling situation. It has greatly affected small traders and farmers who do cash transactions daily.

Many senior citizens do not possess ATM card and infact are not familiar with internet banking. Due to age related factors they are unable to stand in long queues. This has resulted in a very pathetic state. Tourists are really facing a tough time in coping the situation. For them the counters in the airports are the only dealers where they can exchange money in bulk. But the counters run out of cash within few hours. The other problem is only Rs.2000 notes are available. So the foreigners are required to give their currency equivalent to multiples of Rs.2000.

Even for marriage to the maximum of rupees five lakh can be withdrawn. But in this high cut throat environment it is very difficult, that too bride/groom or their parents can only be withdrawn. This has led to the cancellation of many weddings. But hoarders find loopholes in everything. In order to use the black money, they use pledged gold ornaments in

banks as tool. Because through this again they will get back their money through re-pledging. Sometimes the bank officials are helping hoarders by giving them the details of customers who have huge gold loans.

More than forty deaths have occurred in the country after the introduction of demonetization. It is mainly due to cardiac arrest as many senior citizens were not able to stand in the long queues in the scorching heat. Few people having unaccounted black money committed suicide as they do not have any survival options.

CONCLUSION

The government should have actually performed demonetization in phased manner. That is first the banks can get back notes printed before 2010 and then should have demonetized notes printed between 2010-2016. This may result to curb black money in a disciplined manner and indeed it will not affect the lives of common man. The current situation can be tackled only if the government pumps in the new notes at a faster pace. Because the reduction in new notes in banks is creating a tremendous situation among the people as they are finding it difficult to meet their daily needs. The incidence, structure and level of corruption which is occurring in India will not be impacted by demonetization. The money of hoarders and politicians are handled in offshore, so the chance of the money arriving to India is nil. Having Rs.2000 notes at their disposal will make them happy only. Any measure will have its merits as well as demerits. It should be to an extent that merits should outweigh demerits.