

DEMONETIZATION IN INDIA

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Abstract:-

In a 40 minute long speech Prime Minister Narendra Modi announced the demonetization of existing notes of Rs 500 and Rs 1000 during a televised address on Tuesday evening.

Modi announced that the notes of Rs 500 and Rs 1000 "will not be legal tender from midnight tonight" and these will be "just worthless pieces of paper. PM also urged people to ' join this mahayajna against the ills of corruption.

Demonetization process is like a two faces of a coin because one side it will benefit the nation and other side its going to create some temporary and long term problems, we ll discuss each side of coin by one:

INTRODUCTION:-

Demonetization is the withdrawal of a particular form of currency from circulation through demonetization the old currency is replaced by the new currency or a currency circulation is blocked. In a major step to check black money, the government of India on the 8th November 2016 announced demonetization of Rs. 500 and Rs 1000 banknotes with effect from the same midnight, making these notes invalid.

A new redesigned series of Rs.500 banknote , in addition to a new demonetization of Rs.2000 banknote is in circulation since 10 November 2016.

It is expected that this move will help in reducing the fiscal deficit of India and promote the cashless economy which can be easily monitored.

Benefits of Demonetization :-

Counterfeit currency : Possible to stop counterfeit currency using for the terrorism activity.

Black Money : By demonetization of higher currency suddenly it will take out illegally stored money from the holders.

Transparency : Moving towards digital economy may bring the transparency in the system.

Easy monitoring : Digital payment easy to monitor cash flow.

Taxes : less chances of avoiding the taxes.

Investment : transparency in the system will bring more invest from the foreign countries.

Removal of fake currency : 100% fake currency out of circulation in one stroke ! This is probably one of the greatest change that is taking place. This is exactly the reason behind this uproar, this madness from media and politicians, of course they are supported and backed by anti Indian forces.

Removal of terrorism : cash to create chaos and terror lying with terrorists , Maoists ,naxalites, jihadis gone waste!

Hawala transactions : hawala sources dried up for funding of terrorists, Maoists, naxalite, conversion lobby and jihadis. As we know there is a considerable decrease of violence in Kashmir after this decision. Once the funding stopped, there wont be any riots in the valley and we are already witnessing the live effect!

Clearence of Bills :-Defaulters of bank, property tax ,electricity bills,telecom bills are clearing their long pending bills.

The biggest advantage of demonetization is that it helps the government to track people who are having large sums of unaccounted cash or cash on which no income tax has been paid because many people who earn black money keep that money as cash in their houses or in some secret place which is very difficult to find and when demonetization happens all that cash is of no value and such people

have two options one is to deposit the money in bank accounts and pay taxes on such amount and second option is to let the value of that cash reduced to zero.

Since black money is used for illegal activities like terrorism funding, gambling, money laundering and also inflating the price of major assets classes like real estate, gold and due to demonetization all such activities will get reduced for some time and also it will take years for people to generate that amount of black money again and hence in a way it helps in putting an end this circle of people doing illegal activities to earn black money and using that black money to do more illegal activities.

Another benefit is that due to people disclosing their income by depositing money in their bank accounts government gets a good amount of tax revenue which can be used by the government towards the betterment of society by providing good infrastructure, hospitals, educational institution

Growth in cash-intensive sectors such as real estate, construction and FMCG is likely to take a hit in the short term as consumers are deferring purchases. However, there is a positive side to the story: over the medium term, there would be benefits through higher government spending and greater financial inclusion. Also, the movement of household savings from physical to financial will help boost growth, according to Yes Bank report. The near-term fall in growth on account of spending slowdown, could push inflation down. Also, an increase in fiscal headroom will allow the government to maintain fiscal discipline, which in turn will support inflation target in the medium term.

Price level is expected to be lowered only marginally and temporarily due to moderation from demand side.

DRAWBACKS OF DEMONETIZATION :-

Losses to small vendors : Losses to small vendors trade because of cash crunch (violation of article 19 of the Indian constitution.

Death of many People : Many people died because some hospitals not accepted old money and rejected to treat them.

Misleading info : Repeatedly changes in the rules and misleading to the people.

Absence of bank accounts :-many people do not have bank accounts in rural areas and hilly areas.

Problems to labourers : Lots of daily basis labourers removed from the work.

Violation of articles : violation of article 14 (between holder and non holder)

Excessive burden on bank employees:

This is a clear fact that there is an excessive burden on bank employees to cope up with the situation and even after working so hard they are not able to satisfy the need of people.

Decrease in demand:

This is a fact that black economy do support the real economy from demand side, that is to say black money used by the consumers to buy goods or services increases demand for those. Although you may say this is unethical or wrong but it is beneficial from economy' s point of view.

Many people are entering ATMs and using 3-4 different ATM cards and withdrawing 4X cash than the prescribed limit for one person.

Chances of incarnation of De facto currency

De facto currency is a currency that is not recognized by the government as legal tender, but is accepted by a majority of the population. The US Dollar, for example, is accepted in Cambodia as a de facto currency. Similarly if required money is not injected into the circulation there are chances that people belonging to different regions would start using old currency as de facto currency

Players of informal sector as they mainly deals in cash only are facing tough time due to this Demonetization scheme already. Sudden removal of cash from market put their business on a dormant phase.

It is important to understand that their income is not black as they don' t come under income tax slab because of less income which has become even lesser now.

Plight of Primary Producers

Lack of liquidity would result in distress to primary producers who don' t have much money, so that they could hold their produce for long and on the other side due to lack of currency in flow they are offered very less by the buyers in the market.

Non-acceptance of Old currency regardless Government Orders

Many prescribed business houses and establishments are not accepting old currency notes from common people, thus leaving them helpless. The fact that such people have no remedy against such people/ business houses make the situation worst.

Milk Booths, Chemists, Petrol Pumps and Safal Stores etc. are among others. These are dealing with basic necessities of common people.

CONCLUSION :-

In conclusion , I want to only say that every thing has its merits as well as demerits but we can avail the benefits by overcoming the limitations. So, demonetization the step of central government will surely result into something good and help in reducing the black money.

It will surely bring the clear view of every transaction within the country and promote cashless transactions.

Yeah , this step will affect the general people to some extent but for the benefit of future generations such decisions are inevitable. We should not criticize infact we should welcome such brave steps of Indian government.



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