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## **IMPACT OF DEMONIZATION ON INDIAN ECONOMY : A CRITIQUE**

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### **ABSTRACT**

The present research paper is a focus on the decision made by the Prime Minister of India Narendra Modi to demonetise 500- and 1000-rupee banknotes in the year 2016 and its impact on Indian Economy. Modi declared that use of all Rs.500 and Rs.1000 banknotes of the Mahatma Gandhi Series would remain invalid past midnight. He also announced the issuance of new Rs. 500 and Rs. 2000 banknotes of the Mahatma Gandhi New Series in exchange for the old banknotes. The long queues of people standing outside a bank still linger in our minds to exchange Rs. 500 and Rs. 1000 banknotes on 10<sup>th</sup> November 2016. On 8<sup>th</sup> November 2016, the Indian Government made the announcement about the demonetisation of all Rs. 500 (US\$7.80) and Rs. 1,000 (US\$16) banknotes of the Mahatma Gandhi Series. The government claimed that the decision has been made to restrict the silhouette economy and break down on the use of illicit and counterfeit cash funding illegal activity and terrorism. All of a sudden, the decision is made that causes the prolonged cash shortages in the couple of weeks and months creating commotion in the Indian economy. It immensely created a threatening economic output as well. The people thus tolerated the effects of demonetization and GST in the name of *Achche Din Aayenge*. Is the demonetisation a giant requirement of the Government of India? The question baffles all. In economic terms, has it been a magnificent move of the government to cope with a globalized economy?

### **KEYWORDS**

PM Narendra Modi, demonetisation, terrorism, Rs. 500 and Rs. 1000 banknotes, economy

## RESEARCH PAPER

At the outset, the demonetisation was found to be a significant step towards making India a cashless economy. PM Narendra Modi expected Indian population to go cashless with slogan - 'Less-cash' first, 'cashless society' next. More people began using cards and e-wallets, card swipe machines. However concerns were raised regarding the lack security of mobile apps used for digital transactions. The government also announced that any person who is not able to deposit the old notes by 31 December 2016 would be given an opportunity to do so until a later date. The practices like gold purchase; donations in temples were on surmount, and losing of jobs caused due to demonetization.

In the words of Abhimanyu Sharma, the Founder and Director at Sarv.com, demonetization is the mother of all headlines. PM Modi addressed the Country and announced that Rs 500 and Rs 1000 notes would be ceased to legal tender from the midnight ( 8 Nov, 2016). It means that the notes would not be accepted in legal transactions. Black money holders baldly ruined. It is said that the demonetisation had a counter-terrorism purpose. Patel informed that the decision had been made about six months back and the printing of new banknotes of denomination Rs. 500 and Rs. 2,000 had already started. However, only the top members of the government, security agencies and the central bank were aware of the move. At the start, the limit was fixed at Rs. 4,000 per person from 8 to 13 November. This limit was increased to Rs. 4,500 per person from 14 to 17 November. The limit was reduced to Rs. 2,000 per person from 18 November. All exchange of banknotes was unexpectedly stopped from 25 November 2016.

Both the Immediate Mobile Payments System (IMPS) and the United Payments Interface (UPI), which support instant payments using mobile phones, have grown substantially since demonetisation, even as cash has returned to the economy.

[https://en.wikipedia.org/wiki/2016\\_Indian\\_banknote\\_demonetisation](https://en.wikipedia.org/wiki/2016_Indian_banknote_demonetisation)

### *Negative Effects*

The problem of execution occurred due to the government's hasty decision. The problem of survival was with the little per day. The withdrawal from ATM is allowed upto Rs. 2500 and from banks its Rs 10000 only. Long queues obstructed a person to get money on time. Government gave us fifty days to deposit all our cash money into our bank accounts. Children, senior citizens, women found difficulties in being in the queue for a long time. Public dealing is

a very hard-hitting job and when 300 hassled brains in front of you rush unto the counter to make the banking transactions. It's really very horrible and terrible. Due to demonetization everyone was running out of money. It is really difficult to provide new currency notes i. e. cash on time, even by RBI as there is a limit on printing currency notes. Almost all ATM's were empty. In fact, people used to stand in long queues and return empty-handed never pleases anyone.

This is not the first time that demonetisation has been implemented in India. In 1936, Rs 10,000, which was the highest denomination note, was introduced but was demonetised in 1946. Though, it was re-introduced in 1954 but later, in 1978, the then Prime Minister Morarji Desai in his intensive move to counter the black money, introduced The High Denomination Banks Act (Demonetisation) and declared Rs 500, Rs 1000 and Rs 10,000 notes illegal. A lot of analysis in India and abroad claimed that demonetization of November 2016 has failed to do what it was supposed to do and its impact has turned out to be more protracted than initially expected.

<https://timesofindia.indiatimes.com/topic/Demonetisation>)

Government hospitals were allowed to accept old Rs 500 and Rs 1000 notes. But still, it caused many problems in emergency. Cheques and ATM swipes are not available everywhere. Instead of converting black money into white, a person has unintentionally converted his white money into black. People had patience with the shortage of money, and suffered made this historic move a success story. There is a downfall in Economy as

Though, it will be a very temporary effect, but for the next few months, there will be a visible effect on economy due to the decreased purchased capacity of consumers. Worst effects will be on startups and medium sized companies and firms.

<https://www.linkedin.com/pulse/positive-negative-effects-demonization-5001000-notes-indian-sharma>)

### ***Positive Effects***

The decreased black money surely helps Indian government to gain trust from foreign investors. Due to this immobilization government circulates more currency notes in the market to keep it running. A sense of digitalization is automatically generated among people. Hard Money is getting converted into Digital Money: vegetable seller is accepting money via Pay TM. India is changing. As PM Modi declared the demonetization of Rs 500 and Rs 1000 notes, a positive vibe

has been spread throughout the nation and a new ray of hope among all, *Achhe din aayenge*. There were zero counterfeit Notes and a rein on terrorism. There is also an increased Income Tax. Deflation refers to situation, where there is decline in general price levels. Demonetization is a war against corruption and love for our nation. Do we really think PM Modi's decision will help end Black Money? On the whole, India's attempt to flush out undeclared wealth did not work. Is demonetisation a success or a failure? It was a shock to all that old 500 and 1,000 rupee notes went out of circulation. After the announcement, the 500 and 1,000 rupee notes were worthless.

Agriculture, a sector which largely operates on cash, was hard hit too, with farmers not being paid enough for vegetables and pulses they had grown. Many protested and several state governments waived payments on farm loans.

(<http://www.bbc.com/news/world-asia-india-41100610>)

In the article The Guardian stated that "Modi has brought havoc to India." One can notice demonetisation as a visible impact on the poorest of the poor and it is considered to be the pointless suffering on India's poorest. Demonetisation created significant disruption throughout economy as it was carried out without prior study or research.

In fact, a State Bank of India branch remained open at night and a long queue of people waited outside the ATM to withdraw money and suffered a lot to do so. As of November 2016, Indian Railways did not have any other option to make payment with cards at the counters. The shortage of cash due to demonetisation led to disorder, and most people holding old banknotes faced difficulties in exchanging them due to endless queues outside banks and ATMs across India, which became a daily routine for millions of people waiting to deposit or exchange the Rs. 500 and Rs. 1000 banknotes since 9 November. Almost all ATMs were running out of cash.

Demonetisation was indeed manifested through many protests, litigation and strikes against the government in several places across India. Even it was discussed, debated at length about the move in both houses of parliament. Finally, the move reduced the country's industrial production and its GDP growth rate.

## REFERENCES

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