

DEMONETIZATION: IS A GOOD MOVE FOR OUR ECONOMY?

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Abstract: This paper focuses the Demonetization is to bring more people onto the dominant economic grid, where can be easily looked upon and taxed and also generation of more revenue. Through the demonetization there has been kick start of cashless economy, where many people have started using internet channels for payment of money. This step has given a major foundation base to various e-payment portals and the drive towards the digitization on the nation. Large amount of people and business are brought into the bosom of the formal economy via demonetization program which has led to bosom in liquidity and an apparent in its recorded economic growth. Transaction through banking channels have led to moving informal business into formal business as the transaction are now being recorded in banks as payments are made via them. Curbing the black money which has been one of the main agenda of demonetization will get the major push as the black money hoarded in the form of banned currency will no longer be of use, leading to publication of such amount or throwing away of these notes.

Key words: Economic growth, More revenue, Foundation, Healthy movement

Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency: The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Sometimes, a country completely replaces the old currency with new currency. Demonetization is not free from the law of diminishing returns, which seems to have already set in. The drive for digitization of the economy may suffer because the digital divide will remain acute for some decades, given the reach and quality of our education system.

Reasons for Demonetization

- To promote a cashless economy
- To eradicate counterfeit currency
- Eliminate black money
- To combat corruption

Historical facts about Demonetization in India

- On 12th January 1946, 500, Rs. 1,000 and Rs. 10,000 notes were declared invalid as legal tender.
- New notes of Rs. 1000, Rs. 5000 and Rs. 10,000 came into economy in 1954.
- On 16th January 1978, the Morarji Desai led-Janata Party demonetized banknotes of Rs. 1000, 5000 and 10000. Note that, the finance minister at that time was H.M. Patel.
- RBI introduced a new banknote of Rs. 500 into the economy in 1987 to contain inflation.

- On 8th November 2016, the old banknotes of Rs. 500 and Rs. 1000 were barred from being legal tender and new notes of Rs. 2000 were soon introduced.
- Also, Denominations of 1, 2, 3, 5, 10, 20 & 25 paisa were in circulation till June 30, 2011 but were then withdrawn. 50 paisa coins are still in circulation and are called small coins. Other denominations called as rupee coins.

Legal Facts about Demonetization in India

- The legal basis for the order demonetizing currency can be found in Section 26 of the Reserve Bank of India Act, 1934. Under sub-section (2) of this Section, the Union Government is given the power to declare that any notes issued by the Reserve Bank will no longer be legal tender.
- The only procedural requirement is that the Board of the RBI recommends the same to the Union Government.
- In fact, in 1978, demonetization was carried out under a special legislation, namely the High Denomination Bank Notes (Demonetisation) Act, 1978.

Reasons for Good Move

- This will channelize all the money for accountability. This helps in identifying and curbing the tax evasion and black money.
- Carrying a higher denomination like Rs.2000 may help in reducing bundles of hard cash. But speculations of having it recalled sometime down the line have already created a hesitation in the general public.
- Due to these intentionally introduced challenges in using hard cash, people will start preferring using plastic money and digital currency. This helps to track and account everything.
- With the routing of funds for online transactions, the banking sector will receive a boost. Meaning more availability of loans and less possibly of bankruptcy.

Pros of Demonetization

- Demonetization is going to be a death blow on corruption. The exchange of hoarded cash by people with black money will end or will be minimized. Hoarders will be afraid to exchange black money as doing so may trigger penal action, monetary penalties, and/or criminal prosecution.
- The society will gradually move towards a cashless one. Improvement in the banking systems and digitization of money will lead to sharp decrease in cash transactions. Cashless economy will be beneficial for all as it will be marked by financial inclusion and increased and easy access to credit.
- The interest rates will fall with a fall in inflation caused by demonetisation. Also, higher deposits in banks will lead to increased ability of banks to give loans at lower interest rates, which in turn will decrease the price of commodities, real estate, etc., as well as enhance access to such commodities by those who could not previously afford it.
- Tax collected via IT department search and seizure activities as well as voluntary disclosure will fill the government coffers. Increased tax revenue can help offset the fiscal deficit. Also, better tax compliance and increased tax collection in a cashless economy will result in a less complex tax system. Such a system will be marked by tax savings which will increase the disposable income of the population.

Cons of Demonetization

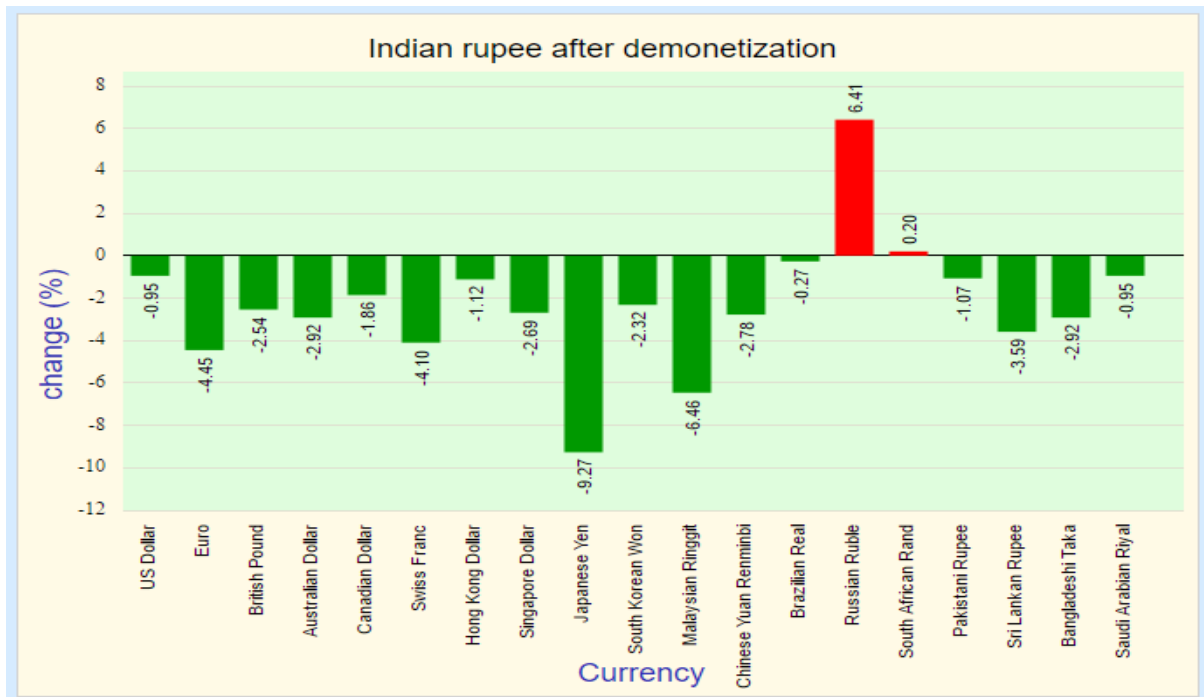
- The banking system is currently flush with huge deposits. All analysis of the positive impact of demonetisation on the banking sector as well as the eventual transition towards a cashless society is based on the fact that banks will have large sums to lend.
- The cash crunch caused by demonetisation has and will continue to affect sectors that are largely cash based.
- Most consumers and households in India prefer transacting in cash for purchase of durables as well as essentials.
- The banking infrastructure in India is way behind other emerging markets. Access to ATMs and point-of-sale terminals is limited and typically available mostly in towns and cities and in organized sector.
- Access to internet, especially broadband connection, is limited to urban areas. Also, even if internet connections are available, it is not very reliable.
- Nearly 80 percent of Indians have mobile phones. However, nearly 65 percent of such mobile phone users do not access the internet from their phones. Also, most of those who do use internet on their Smartphone's often use it to access WhatsApp, Face book, etc., and not for shopping or banking.

Reasons of Demonetization are not good for India “yet”?

- India's economy is majorly driven by agriculture, despite the IT sector's share. And India's population not quite ready yet to get along with online and digital banking. If a farmer is not able to get the required cash due to sanctions on cash withdrawals. It will definitely impact his business. In a larger scale it can impact entire agriculture sector.
- Lack of banking infrastructure is another challenge. In the recent times many banks started to get into online platform; however the rural banks like cooperative banks are still not. These rural banks play vital role agriculture sector.
- Lack of flexibility in using point of sale systems. Even if a customer is ready to use the card for any purchases for example groceries or medicine. The vendor should be equipped with the required machinery, connectivity with the bank to process a transaction.
- Lack of planning to accommodate increased online transactions. Whenever anything changes its course to go in an easier way than it used to be, there will be increased usage and congestion.

Gains for common man in future

- Govt with more tax money will spend on infra spending leading to more employment which will usher in peace and prosperity in society.
- Consumption pattern shifts to essential items rather than ostentatious luxurious items which brings peace and parity in society
- Black money is invested in dead investments like gold /real estate /diamond which suffocate circulation money in the economy. These very investments are used to exploit the poor and honest.



After demonetization of Indian currency on 08 Nov 2016, rupee has become stronger than currency of 143 countries or economies. Out of 161 countries' currency, rupee has become weaker than 17 currencies and is at same exchange rate with 1 currency. Rupee has become stronger by 0.95% against US Dollar (\$) from 66.40 to 65.78 INR per unit US Dollar. Rupee has become stronger against some popular currencies like Euro, Australian Dollar, Swiss Franc, Singapore Dollar, Japanese Yen, British Pound, Canadian Dollar and Hong Kong Dollar. Indian rupee (INR) became stronger than currencies of other south Asian nations Pakistani Rupee, Sri Lankan Rupee, Bangladeshi Taka.

At present, rupee has become stronger than 107 currencies.

Period	Stronger	Weaker	Same
After demonetization (08-11-16 to 14-03-17)	143	17	1
At Present (26-05-14 and 14-03-17)	107	53	1
Before demonetization (26-05-14 and 08-11-16)	93	67	1

Positive effects of Demonetization

- It will rejuvenate the economy and will flush out some of the black money from the system.
- Old notes will no longer be used for terrorism and illicit activities like drug trafficking. (only for temporary period)
- It will bring behavioural change in the minds of Indian people to use more digital transaction. (Kadar village in Gujarat has turned into Digital Village)
- It will now compel business to enter into the formal economy.
- New notes have added with extra security features, thus will make difficult for counterfeiting.

Negative effects of Demonetization

- In a short term, it may slow our economic growth which might also lead to unemployment.
- It has created uncertainty in the Indian market. People will fear to invest into the real estate or other investment projects.
- In a short term, yes people had to face inconvenience which certainly could have been managed in a better way, but overall it is good in keeping long term policy perspective.

Conclusion

The sudden move by the Government of India to curb free-flowing black money is bound to have negative repercussions on illegal financial trade. Although it has been severely criticised for taking many unawares, yet it has struck a bad blow to illegal black marketers and proponents of the parallel money trade in India. Not only does black money substantially widen the margin between the rich and the poor, but the same also results in huge ill-gotten amounts of stashed wealth by the rich and powerful elitist class that think themselves to be outside the reach of law. By exchanging defunct Rs. 500 and Rs. 1000 rupee notes for currency denominations of a differential economical value, the same is a very good measure taken by the government to curb dangerous money laundering in the Indian financial setup. Finally I can conclude that the Demonetization is a good move to our economy, because it has a small pain and a long gain.

