

## **Impact of Demonetization in India**

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### **I. Introduction**

On 8<sup>th</sup> November 2016, India's Prime Minister Narendra Modi announced the Government of India's decision to cancel the legal tender character of 500 and 1000 banknotes with effect from 9<sup>th</sup> November 2016. Exchange of old currency notes for Rs.500 and Rs.2000 currency notes has been permitted until 31 December 2016. Such currency exchanges have been limited to certain specified amounts announced from time to time and excess amounts are required to be deposited with banks subject to applicable KYC requirements. Cash withdrawals have been limited to ensure adequate supply of new currency notes. Usage of old currency notes has been permitted for certain specified periods and purposes, such as at hospitals and pharmacies, gas stations and foreign currency exchange for tourists. The demonetization of the highest denomination currency notes is part of several measures undertaken by the government to address tax evasion, counterfeit currency notes in excess of specified limits directly into bank accounts has results in the declaration of hitherto unaccounted income, subject to higher tax and other penalties.

These demonetization measures have had significant and immediate impact on the state of the Indian economy. These measures are also expected to result in long-term impact on certain industries and sectors. These measures have resulted in a significant decrease in liquidity in the short term, which is expected to ease gradually with the introduction and circulation of the new currency notes. As a result of these measures and increased deposits with banks, the bank deposit base has increased significantly, and financial savings are expected to increase as a result of the shift from unproductive physical asset based savings to interest-bearing financial assets. This in turn is expected to enhance the liquidity position of banks, which can be leveraged for lending purposes. As increase in the deposit base may also enable banks to lower the blended cost of funds as higher CASA( current accounts, savings accounts) deposits enable replacement of higher borrowing costs and decrease overall cost of funds.

With cash transactions impacted by a decrease in liquidity, alternative payment methods, such as e-wallets, online transactions using e-banking, debit and credit card usage have increased significantly. This will increase usage of such payment systems and enable a shift towards an efficient cashless infrastructure.

The idea of demonetization is good but it has to be taken into consideration that most of the black money is kept in the form of land, buildings or gold or kept abroad. what is in cash constitutes only 4% of the total amount of black money on which taxes are not being paid out of this, a lot of money is in circulation in everyday transaction like if someone is building a house, the bill is not paid through banks for sand, bricks etc. this money goes into the other systems through it has been drawn from bank. These things will come under control with this step. Small farmers, sellers, merchants daily wage labourers and traders are suffering because of lack of proper planning intelligence and foresight such as recalibration of ATM machines. There was need to fill up enough 100 rupee notes and other smaller denomination notes in the market before taking this step. It is being said by critics that this step was taken only to bolster the image of the prime minister as he has been unable to deliver on GDP growth, inflation and bringing the black money from abroad.

### **Long-Term Goals of Demonetization**

#### **Surgical Strike on the Parallel Black Economy:**

This is the most obvious one. India has a huge parallel black economy which the government can't tax and which forms as island away from the main economy. Nobody knows the exact figure but it has been estimated to be in the range tens of thousands of crores of Rupees in the past to lakhs of crores today. You can be sure that a good chunk of this will come into the main economy. It is a Herculean task to merge the two streams of white and black money and a great beginning has already taken place.

#### **Make The Corrupt Lose Their Money:**

Well this is for the first time that the corrupt are losing their money in large numbers. Huge sacks of money are being burnt, thrown or caught. Some of it also percolating down as commission for the poor who are converting the old money into new, so it's an unexpected benefit for them too. You may remember that earlier also the recent tax amnesty scheme yielded tens of thousands of crore Rupees. The hoarders of black money will always be wary in the future.

### **Get Everyone To Have A Bank Account:**

The bank scheme for the poor under the UPA was a quiet affair but it really picked up under Modi's Pradhan Mantri Jan Dhan Yojana. This is another push towards that direction. Money deposited after Demonetization has been phenomenal. Moreover if you had your own bank account really had to struggle to convert their old cash. This is another scheme that pushes more and more Indian citizens into the banking system and this is exactly what the government wants.

### **Get Every Citizen In India To Be Monitored Online:**

A cashless economy is not just convenient for citizen, but also for the government to monitor. The government wants each and every transaction in India to be online so it can be easily tracked and taxed. Credit card and net banking usage is up debit card transactions have soared while PayTM has struck a virtual goldmine. This is a huge step forward in India becoming cashless economy. Some may complain that Big Brother is watching, but like it or not, this is the future. Expect many Modi schemes which will push ordinary citizens online. Of course all this will be rendered ineffective if we don't become a Broadband Nation soon.

### **Checking Of Counterfeit Notes:**

The Rs 500 note came out in 1997 and the Rs 1000 in 2000. After 9/11 Pakistan entered into a new partnership with America and they looked the other way as our arch nemesis set up a grand fake notes counterfeiting operation. However now fake notes have been removed from the system and new counterfeits will be difficult. Pakistanis facing collapse. Incoming US President Donald Trump is not that favourable towards Pakistan and they won't be able to operate with impunity.

Moreover the new notes are much more difficult to counterfeit. It was none other than Babasahed Ambedkar, the father of the India's economy after Independence, we said that notes should be changed every 10 years.

### **Crackdown on Terrorism and Naxalism:**

It is an open secret that both terrorism and naxalism run on counterfeit notes coupled with black money. They have been severely hit as their funds have dried up. They are currently down and now is the chance to land a decisive blow and finish off these menaces once and for all.

### **Change The Mindset Of Everyone:**

Since Independence, we have led a fatalistic "chalta hai" policy. Corruption can't go. The black money economy can't be hit. And so on. That changed overnight.

Now the citizens of India know that Modi is serious and any other governments too can crack down if they really want too. More and more people will choose to come onto the white money stream to play it safe.

### **Keep Everyone On Their Toes:**

Modi has been coming out with a slew of schemes after he became Prime minister and this one was a Surgical Strike. What next? Already there is a buzz that the real estate industry will be targeted.

People are also guessing that the Rs 2000 note itself may be Demonetization in the future. Then there was the rumour of the high value note having GPS tracking. That's not possible because the bank note doesn't have a power source. However all this is very expensive and may lead to privacy issues and misuse and hence seems unlikely, but you never can predict the future.

### **Boost The Economy:**

For one a good amount of black money will make its way into the white economy and that will only boost the latter. Then with people burning their notes and counterfeit ones being taken out of the system, the value of the Rupee will become stronger. The more the notes there are in the market, the higher the inflation. If bad notes are taken out of the market, prices will fall and the Rupee's buying power will marginally increase. The online industry has also received a huge boost.

### **Crack Down On Black Political Campaigning:**

It is an open secret that most of the political parties use black money for election campaigning all over India. It has been very difficult to crack down. In fact in some areas, political parties use black money for election campaigning all over India. It has been very difficult to crack down. In fact in some areas, political parties openly distribute Rs 500 and Rs 1000 notes. Well the timing of the current # Demonetization Couldn't be more perfect. There are upcoming elections in Uttar Pradesh, Punjab, Goa and many other states go to the polls in 2017. Black money election funding will be severely hit in these states and parties will in force to raise white money and use their white money reserves. This will be a good beginning and all Modi has to do is introduce bill to regulate campaign spending after that.

## **II. Conclusion**

So far, it can be said that this is a historical step and should be supported by all one should look at the bigger picture which will definitely fetch results in the long term. This is what the people have been asking for a long time which has finally happened. Surely this demonetization will help eradicate the 5% of the Black Economy which is put in cash. Which might push the bank to decrease interest rate by 0.5% . Also we might move towards digital economy like Brazil or USA, there is no guarantee that it will put brake to corruption. Where as Japan considered as less corrupted country even its cash economy is 20% of its GDP. So until unless people of our country stops become g fan of politicians nothing going to change.