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DEMONETIZATION AND ITS IMPACT**DR. YASHODA****ASST. PROFESSOR****SMT. INDIRA GANDHI GOVERNMENT FIRST GRADE WOMEN'S COLLEGE
SAGAR****ABSTRACT**

The Government has decided to discontinue the legal tender character of high denomination bank notes of Rs. 500 and Rs. 1000. Such notes will not be legal tenders from midnight of November 8, 2016. This decision is being taken to curb financing of terrorism through the proceeds of fake Indian currency notes and for eliminating black money.

KEYWORDS

Indian economy, demonetization.

INTRODUCTION

As per dictionary demonetization means “ending something (e.g. gold or silver) that is no longer tender of a country. Demonetization is the process of removing currency from general usage or circulation. It is the act of stripping a currency unit of status as legal tender. In this the current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. The purpose of demonetization is to fight against inflation, corruption, crime, counterfeiting, and tax evasion and to discourage a cash dependent economy.

On 8th November 2016, The Government of India declared that the Five hundred and One thousand rupees will no longer be legal tender from midnight. People have been given upto 30th December 2016 to exchange the notes held by them. The RBI issue Two thousand rupees notes and new notes of Five hundred rupees which will be place in circulation from 10th November 2016. Notes of One hundred, fifth, twenty, ten, five, two and one rupee will remain legal tender and will remain unaffected by this decision. This measure has been taken to control counterfeit notes that could be contributing to terrorism, corruption, to eliminate the black money and to lower the cash circulation in the country.

OBJECTIVES OF THE STUDY

1. To study the history of demonetization in the India and some other countries.
2. To analyze the impact of demonetization on Indian economy.

METHODOLOGY

The paper is purely based on Secondary data. The data was collected from websites and newspapers respectively.

HISTORY OF DEMONETISATION

The measure of demonetization is not a new concept of the world. Many countries have experimented with the process of demonetization in the past. Some countries benefitted from this while some failed at it. For India also demonetization is not a new concept. It has been implemented twice in 1946 and in 1978. Following are the some countries including India have implemented the policy of demonetization.

INDIA

Beginning in 1934 Rs.500 and rupees Rs.1000 notes were introduced and after four years in 1938 rupees Rs.10000 notes were introduced.

On 12th Jan 1946 Rs.500, Rs. 1000 and Rs. 10000 notes were removed from circulation. The ban did not affect much, as the currency of such higher denomination was not accessible to the common people. However, new notes of Rs.1000, Rs.50000 and 10000 were introduced in 1954.

On 16th Jan 1978 the Prime Minister of India Morarji Desai led-Janata Party demonetized bank notes of Rs.1000 and Rs.5000 and Rs.10000 with the aim of curbing black money generation in the country. The Finance Minister at that time was H.M.Patel.

In 1987, The Reserve Bank of India introduced a new bank note of Rs.500 in the economy.

On 8th Nov 2016, the old bank notes of Rs.500 and Rs.1000 were removed from circulation and new notes of Rs.2000 were introduced.

GHANA

In 1982, in order to reduce tax evasion, curb corruption and manage liquidity, Ghana demonetized its 50 cedi currency note. The move backfired, with the public losing faith in the banking system and switching over to physical assets and foreign currency.

NIGERIA

An anti-corruption crackdown was conducted by the military government led by Muhammadu Buhari in 1984. He issued new currency notes with new colours so that old would be rendered unusable within limited time frame. The goal to fix debt-ridden and inflated economy was not achieved.

MYANMAR

In order to curb the black market, the country's military invalidated 80 percent of the currency in 1987. But the move resulted in a lot of protests and the country witnessed several killings.

SOVIET UNION

Under the leadership of Mikhail Gorbachev in January 1991, the erstwhile Soviet Union withdrew 50 and 100 ruble notes, in order to eliminate black money and increase the currency value. The notes accounted for a third of the total money in circulation.

Gorbachev faced a coup within eight months in August as the move was not a success. The 1991 attempt led to a successful re-denomination of the ruble in 1998 where three zeros were removed. This was followed by another currency switch in 2010 when two more zeros were removed from the old currency. The 2010 attempt was not as successful as the timing coincided with a poor harvest.

ZAIRE

Dictator Mobutu sese seko's administration laid out back-to-back currency reforms along with a plan to withdraw obsolescent currency from the system in 1993. The reform was not well received by the public and resulted in increasing economic disruptions. Mobutu was ousted in 1997.

ZIMBABWE

Zimbabwe once had hundred trillion dollar note, which was demonetized and was exchanged in a mocking way dropping trillion dollars to \$0.5 dollar.

NORTH KOREA

North Korea faced demonetization of their currency in 2010, which led to major economy breakdown with people left to starve for basics.

IMPACT OF DEMONETIZATION

1. Since high denomination notes facilitate the illegal transfer of money for financing transactions which are harmful to the national economy the demonetization of highest currency notes could eliminate 100% fake currency out of circulation in one stroke.

2. It would abolish black money from the economy.
3. It will affect more on the Indian economy and clean up illegal cash; old notes are deposited in banks and help to reduce interest rates.
4. It will bring more borrowings to the treasury and increase India's Gross Domestic product.
5. This will lead to higher tax collection, as business starts to deposit cash lying with them as current year income with advance tax and long pending bills like property tax, electricity bills and telecom bills will be cleared by utilizing old currency notes.
6. Due to moderation from demand side, prices of goods is expected to lower temporarily. The business persons who deal in cash would now start using cashless modes for transactions or digital methods.
7. The prices of land and property will come down. Because Real estate is an industry built on black money and hype in real estate prices is because of the circulation of black money in the market. From the demonetization black money would get out of circulation from this sector.
8. It helps in making the election process clean and transparent. Because the removal of highest denomination notes is a shock for the political parties and politicians for whom black money is a lifeline and who believe in the idea of purchasing votes in exchange for notes.
9. Before the demonetization due to corruption and red-tapism foreign investors were reluctant to invest in India. But after the demonetization the corruption is reduced up to a certain level. As Indian market is large size and has huge number of consumers, it will attract foreign investors to invest in India.

CONCLUSION

Though the Government decision to scrap high value notes of rupees 500 and rupees 1000 was to reduce corruption, black money, counterfeiting and terrorist funding, it had caused huge inconvenience to the people. It had created a shortage of cash in the system and led a lot of discomfort for the general public and business. Since our economy is heavily dependent on cash and only less percentage of the population use online banking transaction, demonetization hit trade and commerce. People, small merchants, business persons, transport services, daily-wage earners who do not use plastic money such as credit cards, debit cards or online banking they did not accept other methods of payments. Many poor daily wage workers are left with no jobs and their daily income had stopped because employers were unable to pay their daily wage and business persons couldn't buy stocks and lost their business.

Of course, the demonetization will help in fighting against corruption, black money and tax evasion and its benefits will be seen in the long run. But in order to reduce inconvenience to the people the Government should have taken all the necessary steps and actions to meet the currency demand.

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