DEMONITISATION AND ITS IMPACT ON INDIAN ECONOMY

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Introduction

Demonetisation is an act of replacing the old currency by a new currency. The process of demonetisation involves introducing new currency or coins or replacing the existing currency units. To reduce the inflation, to reduce corruption or change the existing cash system are the major factors of demonetisation.

Recently, government of India demonetise the two biggest denomination notes which is accounted 86% of of country's cash supply. The main aim of this is to eliminate black money and to promote the cashless economy. By demonetising the highest currency notes, those who owned huge amount of black money were forced to change the notes in banks were every money is accountable and in that way the government monitor the activities of the individuals.

Global Perspective

Prevoiusly, in 2015, Zimbabwean government was also demonitise their currency with a motive of control hyperinflation. Hyperinflation occurs when a country experiences very high rate of inflation and quickly eroding the actual value of their currency. This decicision was initially accepted by many bankers,economist and the government was also take necessary steps to introduce the new currency value of Rs.2000 and make available to the public. There was also a strong critism from the opposite parties that which lead to debate in both the houses of the parliaments. The government claimed that this effort was taken to reduce the black money. But the public were suffered by severe cash shortages.Even though the government take necessary arrangement through the ATM 's and exchange their money through banks by using their aadhhar card, but the people having old notes face lot of troubles while exchanging.

Realisation of Objective

In India where population is high in numbers, people stand in long line to exchange their notes and several death were also reported in some places due to rush. Only the poor people were suffered a lot where they were not even aware of the e-wallet mechanism.

Due to the shortage of cash, it crack down the nifty and sensex. It is also reported that the small and medium business were also hit by cash shortages where the public will not not allowed to withdraw cash from the banks more than Rs.2000 per day per account.

In 2012, the Central Board of Direct Taxes had recommended against demonetisation, saying in a report that "demonetisation may not be a solution for tackling black money or economy, which is largely held in the form of benami properties, bullion and jewellery". According to data from income tax probes, black money holders keep only 6% or less of their ill-gotten wealth as cash, hence targeting this cash may not be a successful strategy.

Electronic bill payment

Even though banks have pushed their physical presence by expanding into locations such as supermarkets and increasing the hours of operation, non physical methods of banking are growing in popularity. With each new method of payment system introduced in the market, it has increased choice and convenience.

Innovativeness has been conceptualised as an individual propensity to accept change and new ways of thinking and doing things. Occasional use of electronic payments can also be made. If the normal practice is to pay by cash or cheque, and for some reason payment is delayed, it is possible to make an e-payment to expedite the processing and not to incur late fees.

Cash, the preferred mode of payment

Cash is a precious resource, the availability of cash to splurge on gadgets seems like a luxury. However, in large format retail stores, sales patterns don’t seem to be impacted as a result of demonetization since most transactions are digitally enabled. Though there is a boom in e-commerce, cash is still a preferred mode of payment in most of the consumers.

According to Nielsen’s Global Connected Commerce Survey about 83 percent consumers in India said they’d used cash on delivery for buying products from online stores in the past six months (surveyed in Q4 2015).

Demonetisation to cause short-run disruptions to Indian economy

RBI Governor Urjitpatel reveals that demonetisation could result in short-run disruptions in economic activity in cash-intensive sectors like retail trade, hotels, restaurants and transportation, and the unorganized sector.

RBI, however, kept retail inflation target of 5% for the fourth quarter of the fiscal and the medium-term target of 4% within a band of +/- 2% while supporting growth. MPC, RBI said, felt that the assessment is clouded by the still unfolding effects of the withdrawal of specified bank notes.

Impact of Demonetization

1. Black money:

Black money stored in the form highest currency value is demolished. But the fact is only a small amount of money is stored in the form of cash. So the government only stripping the black money in the form of cash where many of the individuals save large amount of money in the form of binami transactions, savings in fourien currency banks were not considered.

2. Fake Indian currency notes were demolished:
There are large amount of fake Indian currency notes were in rotation. Demonitization helps to demolish the fake high currency notes.

3. Purchasing Power:
Demonitisation will affect the consumption of people, and it will indirectly affect the production, employement and also the tax revenue. The sale of consumer goods may drop by one third. It may reduce the GDP of the country and also affect the FDI.

4. Shortage of currency:
Only poor people were keep their money in the form of cash to meet their day to to day expenses. They will suffer due to shortage of currency notes and coolies will lost their daily wages and few of them were spend their whole day in front of banks to exchange their old notes.

5. In the field of agriculture:
Farmers were suffered a lot because of non availability of funds to buy seeds and fertilisers. In India, only few villages have ATMs. So they rush to the cities nearby and stand in the long quos.

6.Cahless Economy:
The main effect of demonetisation is to realise the importance of cashless economy and digitalised payment mechanism. Forcing the public and businessmen to make use of digilised payment mechanism will make the government to monitor their activities and bring them inside the tax net.

Conclusion

The goal is to eradicate black money, counter tax evasion and destroy counterfeit currency. In practice it amounts more to demonization of cash than demonetization of currency. It is shockingly callous in its indifference to the distributional consequences. But it will eliminate only few amount of black money and fake currency notes. Large amount of unaccounted black money was invested in the form of Land, Gold, binami transactions and foreign banks wont be affected. For these groups the shock therapy amounts to a minor inconvenience rather than a major hardship. But several million mildly irritated people among a country's most likely overseas goodwill ambassadors are not to be disregarded.

References

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