

DEMONETISATION AND ITS IMPACT ON INDIAN ECONOMY

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ABSTRACT

On 8th November 2016 night at 8.15 P M Prime Minister of India Mr. Narendra Modi in his unscheduled television address to the nation announced that the currency notes of ₹ 500 and ₹ 1000 denomination will not be a legal tender money from midnight. Government took this step of demonetising the currency as a tool to fight against black money and corruption in Indian Economy.

KEYWORDS: Demonetisation and its Impact on Indian Economy

INTRODUCTION

What is Demonetisation?

Demonetisation is the process of removing currency from general usage or circulation. In India's case Government completely withdrawn the currency with the denomination of ₹ 1000. Along with ₹ 1000 currency notes ₹ 500 rupee notes were also withdrawn from circulation. For the old 500 currency notes new 500 rupee notes will be issued and a new currency note of 2000 denomination has been introduced in the economy. New currency notes issued to the public through commercial banks and post offices across India by depositing the demonetised currency notes by the people.

DEMONETISATION IN INDIA

This is not for the first time Government Demonetising the currency. Earlier to this India has witnessed demonetisation twice. For the first time demonetisation took place in pre independence period. In January 1946, for the first time demonetisation took place in India. During this demonetisation currency notes of ₹ 1000 and ₹ 10000 rupees were withdrawn from the circulation and new currency notes of 1000, 5000 and 10000 denomination rupees were introduced in the year 1954. On 16th January 1978, Government of India Demonetised the currency notes of 1000, 500 and 10000 rupee notes as a means to counterfeit money and black money. The present demonetisation is the third occurrence in Indian Economy and it is the second Demonetisation in the post independence period.

IMPACT OF DEMONETISATION ON INDIAN ECONOMY

Government of India demonetised the currency as a tool to fight against corruption and black money, which are the major problems of Indian economy. The present demonetisation will be having some effects on Indian economy. Some of the major effects of demonetisation is as follows.

Effect on Parallel Economy

One of the major objectives of the demonetisation is to fight against the black money. With the demonetisation the black money within the economy will be blocked as the owners of the black money in the form of 500 and 1000 rupee notes cannot replace it and deposit it in the banks as it is not having the proper documents. In this way the parallel economy will be affected to a greater extent which is the positive impact of demonetisation.

Short Run Effect on Money Supply

Money supply will be reduced in the market due to withdrawal of currency notes from circulation. This effect will be the short run impact of demonetisation. The problem of money supply will be solved when the new currency notes widely circulated in the market.

Effect on Consumption

Decrease in money supply as a result of demonetisation is also having an impact on production and consumption. Due to decrease in money supply production decreases and it affect the consumption negatively.

Fall in the Prices

Prices for different goods will fall with demonetisation of currency. The prices of consumer goods and the prices of real estate sector are expected to fall.

Increase in Bank Deposits

The demonetisation increases the deposits in current account and savings bank account. As government announced the demonetisation, the money held by the household sector for the emergency purposes will be deposited with the banks, which will increase the deposits in the banks.

Increase in Alternative Modes of Transactions

Due to demonetisation the cash transactions are facing a reduction, which increases the other alternative modes of transactions like use of credit cards, debit cards online payments and transactions etc.

GDP will Decrease in the Short Run

GDP will be hurt due to the demonetisation. GDP of India may fall as a result of demonetisation. The extent of fall may be very less and it exists only for a short duration of time. This fall may not affect the growth of the economy.

Effect on Anti Social Activities

Demonetisation is a mighty blow on the anti social activities. Due to the demonetisation funding of anti social activities, smuggling can be curbed. These anti social activities weaken the economy. It is difficult to the anti social activists to recover from this. So the anti social activities can be curbed to a greater extent.

Effect on Other Units of the Economy

Demonetisation will have short run impact on agriculture, small traders, small vendors etc. as agriculturists are dealing with the perishable commodity, not having other mode of payment other than cash transactions and lack of demand will affect the farmers negatively. The same kind of situations faced by the small traders and small vendors. This also a

short run effect of demonetisation

These are some of the major impact of demonetisations on Indian economy

CONCLUSIONS

Demonetisation in Indian economy is having negative impact on the different sectors of the economy. Majority of the negative effect are short run effects. All these effects are solved when the new currency notes are widely circulated in the economy. On the other hand people are facing some problems in the exchange of currency notes. Even though people are facing such a problem people are ready to bear these problems for its positive effect on the economy. If government successfully clears all the problems, drawbacks associated with the demonetisation, this demonetisation will become the successful economic revolution in India and we can expect a better tomorrow with corruption free India.

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