

The impact of demonetization on Indian economy

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Abstract: The demonetization strategy implemented by the Government of India on November 8th, 2016, was designed with the objective of eliminating illicit funds inside the economy and curbing the circulation of counterfeit currency, which were believed to be utilized for the purpose of financing acts of terrorism. Two further significant aims were to broaden the formal economy's scope and to make gradual progress in digital transactions. However, the implementation of this policy shock was deemed unjustified due to its potential to disrupt economic operations, particularly in the short term. The advantages and disadvantages of this approach have been subject to substantial deliberation and analysis within the realm of print media and policy discourse. However, it has been observed that there is a lack of empirical information about the influence of this policy shock on economic activity. Within the confines of this particular setting, employing econometric research, the current investigation has ascertained that demonetization did not provide a statistically significant influence on the general trajectory of economic growth. Instead, the repercussions were confined to certain sectors. Likewise, the effect of demonetization on inflation was particularly noticeable in relation to food costs only. However, a significant policy implication arising from demonetization is the transformative impact it has had on digital transactions in the years following its implementation.

Keywords: India, Demonetization, Economy, Impact, Government.

1. Introduction

On November eight, 2016, the Indian authorities initiated a policy called "demonetization," which meant that each one Rs.500 and Rs.1,000 cash lost their prison coins status. Despite this, the smaller denominations of cash, like Rs 10, Rs 20, Rs 50, Rs one hundred, and coins, have been nevertheless legal. It was an effort via the government to deal with three economic troubles: the presence of a parallel economy, the movement of fake money, and the funding of terrorist operations. Is this action felony? The Government of India and the Reserve Bank of India (RBI) can claim a sure financial institution observe illegal, even if it affects how agencies run. According to the Indian Constitution, this power comes from the reserve given beneath the Right to Trade. Demonetization of Indian foreign money has taken place earlier than in India. Officially, demonetization has passed off twice in history, on January 12, 1946, and January sixteen, 1978. The principal intention of these modifications turned into to cope with tax fraud and reduce the quantity of unlawful money that turned into floating round. We are now officially using the Rs 2,000 bill.

The first ban on money was in 1946.

Two new notes, Rs.500 and Rs.1000, came out in 1934. After four years, in 1938, Rs.10,000 notes came out. Indian rupee notes worth Rs.1,000 and Rs.10,000 were taken out of circulation in 1946. They were both brought back in 1954, along with a new note worth Rs.5,000. The ban didn't really have an effect because most people couldn't get their hands on such high-value money. As of the end of 1947, note exchanges had used up 134.9 crores of the 143.97 crores of high denomination notes that had been printed. This means that notes worth only Rs. 9.07 crores were likely "demonetized." There was no foolproof way for the government to prove that a certain note brought by a person was the life-savings of the hard-working man who gave it or the shady profits of a black marketeer. Another hole was that the princely states were not subject to investigation or

questions when they showed these notes. So, it was more of a "conversion," with different rates of making money and losing money, than a "demonetization."

The second ban came in 1978.

The Planning Commission of India set up the Wanchoo committee as a direct tax probe committee in the early 1970s. They offered demonetization as a way to find and stop the flow of "black money." Morarji Desai, who was Prime Minister of India at the time, banned Rs.1000, Rs.5000, and Rs.10,000 notes in 1978. This was 1.7% of all notes in circulation, or Rs.1.46 billion, which was equal to 0.1% of GDP. The ban's only goal was to stop people in the country from making black money. But because the suggestion was made public, people who were holding on to black money moved quickly to get rid of large amounts of cash before the government could catch them.

Similarities in 1978 and 2016 ban

The goal of Morarji Desai and Narendra Modi's note bans was to get rid of black money in the economy. Because of this, the High Denomination Bank Notes (Demonetization) Act, 1978 was put into place. Narendra Modi said that the cash ban would happen in a speech that was shown on all news stations. Desai also told people about the ban over the radio, and the banks were closed the next day. Both of the affairs were kept secret. Differences in the ban on money. Desai did not have the support of the RBI Governor like Modi did. Governor I.G. Patel thought that the ban was only put in place to stop the rival party's money from being used. Patel also thought that people never keep black money in the form of cash for too long. The cash ban in 1978 only touched a small group of wealthy people. The ban in 2016 shocked the whole country.

2. Literature review

A review of the literature was done to learn more about how demonetization has affected India's economy and identity problems, as well as to come up with research study questions. Also, the literature that is already out there on demonetization has been carefully read and added to show us where we need to add more information. Different types of researchers are very interested in how demonetization problems in India have affected the country, and a lot of studies have been done on this topic. Patnaik (2016) said that black money comes from not paying taxes on income from legal activities and money made from doing illegal activities. Demonetization is pointless if steps aren't taken to control and stop the production of black money. The country is in a riot-like situation because of the problems with demonetization. We want the government to make sure that regular people can get enough money right away to cover their daily expenses and medical problems. If that doesn't happen, we want demonetization to be rolled back or put on hold so that regular people can meet their daily needs. When the government does this, they are being honest about how they handle taxes and not treating regular people like criminals by making them wait in queue and fill out forms to get to their own money. In his 2016 study, P. Kumar Vijay looked at how the word "demonetization" has been used in the Indian market before. The Reserve Bank of India created the Rs 10,000 note twice, first in 1938 and again in 1954. It was the largest denomination note they had ever made. But, according to an RBI data release, these notes lost their value in January 1946 and again in January 1978. Indian currency is managed by the Reserve Bank of India, which is authorized to do so by the Reserve Bank of India Act 1934. As of November 10, 2016, a new set of redesigned Rs 500 banknotes and a new number of Rs 2000 banknotes are in circulation. The choice was made to stop the illegal use of large amounts of money that were being used for crime in the country.

3. Conclusion

The decision by the government to get rid of old money and replace it with new money caught everyone by surprise. This was done to deal with the fear of illegal money, corruption, support for terrorism, and fake money. People saw the decision to get rid of the old currency as a precise strike against the unaccounted money in the Indian economy's past. It could be the first step towards a cashless economy. Following the demonetization, the country experienced a serious cash shortage at banks and ATMs across the country, which hurt many small businesses, farms, and transportation. India's government banned old currency notes, which caused short-term chaos because most people with them had trouble swapping them in the long lines outside of banks and ATMs across the country. A total of Rs 14.2 trillion worth of old currency notes were in circulation. This is about 86% of the total value in circulation. Either the heavy taxes and fines that were paid on the black

money have been paid back, or the money has made its way into bank accounts through direct or secondary means. The Indian economy would benefit from demonetization because it would push people to use digital payment methods like E-wallets and apps, E-banking for online transactions, plastic money, and so on. In the medium to long run, demonetization is good for the business.

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