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Demonetization of Currency - Positive Effects

Submitted by

Dr.S.Moorthy
Associate Professor
School of Commerce and International Business
Dr.G.R.Damodaran College of Science
Coimbatore – 14
Email: moorthyspkd@gmail.com

Abstract

The demonization attempted in the recent past by the present government in power is a bold move and a significant change initiated to help the business and industry of India. The Government has taken this step on November 8, 2016. This act of removing some currency from the circulation was not a welcome move for the citizens, politicians, businessmen, banks and institutions etc., etc. The people did not welcome the move but the Government has introduced it in order to ensure corruption free India, curtail black money, control price rise, stop funds flowing for illegal activities and construct a cashless society and to build Digital India. It affected the common citizens and business activities to a larger extend. Even though there is suffering and agony among a lot of the people at that point of time but the forecast is that its benefits will be seen in the long run. It is also important that bringing changes for betterment is better than being idle and inactive. The Demonetization move had both merits and demerits. Hence, it can be concluded that, when we make an analysis of its impact on Indian Business, it created a positive impact for the business and industry and for the Indian Economy.

Key Words: Demonitization, Currency, Circulation, Corruption, Curtail, Digital Positive, Impact.

INTRODUCTION

The demonization effort of the present government in power in the recent past is a very bold and a rare move to do something good to the economy of our country. The Government has taken this step on November 8, 2016. The act of removing some currency from the circulation was not a welcome move for the citizens, politicians, businessmen, banks and institutions etc., etc. The people did not welcome the move but the Government has introduced it in order to, create corruption free India, curtail black money, control price rise, stop funds flowing for illegal activities, construct a cashless society and to build Digital India. When we go through the past no significant change brought in by any of the previous governments was accepted by the society. The economic liberalization introduced in 1991 by the then finance minister Dr. Manmohan Singh is a fine example in this regard. The society and the people from all walks of life now have realized the importance and the contribution of this liberation policy for the growth of our country and country's economy. Hence, we hope in the deepest sense this demonization move has been positively contributing for the smooth running of the business and to the growth of our country's economy.

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The demonetization plan is being perceived as a financial reform in the country but this decision is filled with its own pros and cons.

The Positive Impact of Demonetization on Indian Business and Economy

Economy

The cleaning of illegal cash in the country might have helped the economy for its turn around. This move would have helped the country for a substantial effect on the country's economy. It would have brought more money to the banking system and banks in turn would have pumped more money to the economy. It will advance the investment opportunities and will progress infrastructure and manufacturing. This in return would have increased the country's gross domestic product (GDP). It is possible but not that much visible and we will enjoy all possible benefits in the near future as we are enjoying the benefits of Liberalisation initiated in the year 1991 by the then Finance Minister.

Black Money

The subject of black money is a big threat to the economy as well as to the country. The black money operators in the country are able to run a similar economy which quake the foundation of the economy of the country. The existing black money does not permit the country grow further. The act of demonetization would have either brought all domestic black money in to the banking system or would have been simply destroyed. This change increasingly will boost the manufacturing activities and will actively contribute to the growth of the country.

Note Bank Politics

The suspension of the old Rs 500 and Rs 1,000 currency notes from the country will help make the election process clean and transparent. It can prevent political parties entering into the note bank politics. This shift has brought tough times for the political parties and politicians who believe in the idea of purchasing votes in exchange for notes.

Real Estate Sector Cleansing

The black money floating in the real-estate sector in India is very enormous. It is believed that the entire real estate sector is built on black money. The estimates reveal that more than 40 per cent of real estate transactions in the country are taking place in black. This sector always attracts black money and most of the men involved in this sector are black money handlers and holders. The demonetization will restrict the flow of black money into this sector. This will help in making the much needed correction in this sector.

Hawala Operations

Hawala is a technique of transferring money without the actual movement of money. This path is used as a mode to facilitate money laundering and terror financing. It is a continuous threat to the nation. Demonetisation has controlled the hawala operations suddenly and has send shock waves

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to those who involved in hawala operations. It is to hope that many involved in these operations had no other way except destroying the currency holdings. It is an important development which prevents the hawala operations to the extent possible.

Bogus Currency

The fake currency operations in the country badly devalue the real worth of Indian currency. The Demonetization to a great extend has dealt to counterfeit Indian currency syndicate operating both inside and outside the country. A study conducted by Indian Statistical Institute, Kolkata on behalf of the National Investigation Agency (NIA) suggests that fake Indian currency notes (FICN) amounting to Rs 400 crore are in circulation in the country at any given point of time and around Rs 70 crore fake notes are pumped into Indian economy every year. The estimation is based on recovery and seizure made by various agencies. It should be true that the actual amount could be much larger than the estimate.

Terror Funding

The terror operations getting finance through fake currency and hawala transactions. The fake currency circulation is routed through a multi-layered network of hawala operators which are closely linked to gambling and smuggling of drugs, opium and arms. Indirectly, they all end up in terrorism financing. The prevention of circulation of counterfeit Indian currency has hindered hawala transactions and helped for the closure of windows for terror financing.

Maoist Movements

The Demonetization move has hit the Maoists and their operations badly. The black money is the main route for Maoists for funding. The sudden move has affected their funding operations to a great extent. According to an estimate, Maoists manage to raise Rs 300 to Rs 400 crore annually through donations. This money is used to purchase arms and ammunition, food, medicine and daily essentials. The illegal money raised now reduced to paper scrap. The maoist activities are much reduced due to this move.

Kashmir Unrest

The turmoil in the Kashmir is a continuous issue for the concern of the country. The terrorists in the valley are financed by the neighboring country through hawala route. It is estimated that the neighboring country Pakistan sends approximately 1000 crores of rupees to the separatists in the valley to create disturbances in the valley. The act of demonetization to a major extent has controlled this money transfer through hawala route and thereby the unrest in the valley has been brought to its minimum.

North-East insurgency

The experts are of the opinion that the Demonetization move has sternly affected several militant groups which are operating in the North-East region of the country. It is also considered as threat to the nation’s prosperity and economic health. Intelligence estimates say that approximately 300

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crores of rupees are pumped into the militant groups operating in these areas. Their activities are also getting affected after the move of Demonetization.

Boost to digital payment

The move of demonetisation has tremendously increased the digital payments in the country. The estimates state that the digital transactions in all modes have increased to 27.5 million in May 2017 from 22.4 million in November 2016. Here the increase is 23 percent in the referred period. The top government officials told this to a parliamentary panel in the recent past. The highest jump was from one million per day in November 2016 to 30 million per day in May 2017. This increase is witnessed in transactions through Unified Payments Interface (UPI). This is not only a major increase but also a positive impact on the technological development. The recent study conducted estimates that the digital payments in India will increase to 135.2 billion US dollars in the year 20203 from $ 64.8 billion US dollars in the year 2019.

Closure of shell companies

These companies were used to channel black money by vague sources of funds. The government of India has deregistered over 2 lakh such companies based on data mined from demonetisation, indicating the government's intent to go after tax dodgers. The drive against black money has led to the discovery of many shell companies. Following demonetisation, over three lakh companies have been found, they are nothing but shell companies. Prime Minister Narendra Modi had said in his Independence Day speech.

Conclusion

The Demonetization has disturbed the economic activities in the country with liquidity shock but the same cannot be treated as a big disaster like global banking sector crisis happened in the year 2007 or the economic crises happening in USA. It affected the common citizens and business activities to an extent. Even though there is suffering and agony among a lot of the people at that point of time but the forecast is that its benefits will be seen in the long run. It can be considered as a bold and a good initiative by the present government to control the black money. It is also important that bringing changes for betterment is better than being idle and inactive. The Demonetization move had both merits and demerits. When we compare the merits with demerits it can be concluded that the merits are more important than the demerits in the interest of the country as a whole. Hence, this move created a positive impact rather than a negative impact on the country's economy. This move will continuously pour the benefits and positive returns in the years to come. The long term effect on the economy and on economic development will certainly be positive. Time will come when the country can measure the impact in terms of money value and in terms of GDP growth.

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