

INDIAN DEMONETIZATION: A REVIEW OF THE 2016 FINANCIAL HIJACK OF THE INDIAN ECONOMY

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ABSTRACT

Cash is the preferred mode of transaction in India and approximately less than half the population uses banking system for monetary transactions. Indian Prime Minister Narendra Modi took a historic decision by announcing that the high-denomination notes (Rs 500 and Rs 1,000) then in circulation would cease to be legal tender. The sudden move to demonetize these currencies paralyzed the economy to a certain extent. It has caused many difficulties for the common people because of insufficiency of momentary resources. The side effects of India's demonetization plan were that a large number of people initiated the use of digital payments. The value of Internet banking, Debit card & Credit card, Mobile banking became high. The aim of this action taken was to cease the black money circulation from the economy to put an end to corrupt financial practices. This paper attempts to gauge the magnitude and breadth of the impact of this major policy move.

KEYWORDS: *Demonetization, Policy, Digital, Economy, Magnitude, Corruption, Black Money.*

Introduction

On the evening of 8th November 2016, the Prime Minister of India announced one of the boldest moves in the history of India's socio-economic scene—demonetization of old Rs. 500 notes and Rs. 1,000. Soon after, new notes of Rs. 500 and Rs. 2,000 notes were pumped into the economy. 86% of India's currency was made illegal in an effort that aimed to clean out the black money supply from the market and counterfeit notes which completely disrupted the social, political, and economic spheres of the country.

Demonetization

Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency: The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Sometimes, a country completely replaces the old currency with new currency. The opposite of demonetization is remonetisation, in which a form of payment is restored as legal tender (Investopedia). In the days following the announcement, bank and ATM lines were increasing rapidly. Now, the lines have subsided, but the raging debate around the policy has not. The policy aims to fight "corruption, black money, and terrorism" in India by replacing the old currency notes with new currency notes to invalidate the existing unaccounted stock of money.

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