

DEMONETIZATION AND ITS IMPACT ON THE INDIAN ECONOMY

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Abstract

The term demonetization is not new to the Indian economy. The highest denomination note ever printed by the Reserve Bank of India was the Rs.10,000 note in 1938 and again in 1954. But these notes were demonetized in January, 1946 and again in January 1978, according to RBI data. Pavan Kumar Vijay Last week on November, 2008, when the whole world was waiting for the outcome of US presidential election, Prime Minister Narendra Modi came out with his master stroke on corruption, counterfeit currency, terrorism and black money by announcing demonetization and ceasing Rs. 500 and Rs. 1,000 notes as a part of legal tender in India. The Reserve Bank of India manages currency in India and derives its role in currency management on the basis of the Reserve Bank of India Act, 1934 and a new redesigned series of Rs. 500 banknote, in addition to a new denomination of Rs. 2000 banknote is in circulation since November 10, 2016. The new redesigned series is also expected to be introduced to the banknote denominations of Rs. 1,000, Rs. 100 and Rs.50 in the coming months. The demonetization of the 500 rupee note and the 1,000 rupee note the two highest currency denominations available in India will likely hit the economy hard in the short term. The surprise move is expected to grind the consumption activity in the Indian economy to a virtual halt. The service sector, which dominates economic activity and involves a sizable chunk of cash transactions, will likely be hit the hardest. This study will try to find out the positive or negative impact on Indian economy of demonetization.

Keywords: UIDAI, ATMs, Demonetization, Economy, Impact, Black Money, Counterfeit Currency.

Introduction

Demonetization will hit the economy. The legs that needed to hold this policy up government - issued IDs, widespread access to bank accounts, proliferation of banks and ATMs (both supplied with enough new currency and adequately staffed) were not ignored by the government. Over the last few years, India has made a huge push to issue ID cards according to the UIDAI, the body charged with issuing government IDs (called Adhaar cards), in 2015, 93 percent of adults in India had an Adhaar card. Another government program, called the Pradhan Mantri Jan Dhan Yojna inclusion with the goal of opening a bank account for every household in India. The Jan Dhan scheme did make some huge strides, at least according to their own data but even while the penetration rates for bank accounts surged, a reported 43 percent remained dormant, with only 39 percent of bank account holders having a debit or an ATM card. But as many have pointed out in the wake of this policy, those measures were not enough. Increasing bank account penetration from 35 percent in 2011 to 53 percent in 2014 is incredibly impressive, but that still means that almost half the country doesn't have access to banking, and a large proportion simply use alternative methods of financing (for example, cooperatives, which are more trusted), and 300 million people don't have the required government identification.

Further, the Policy Tried to Tackle Several Problems: the more extreme, like counterfeited currency and terrorism, but also issues like the informal economy and the cash transactions that allow it to exist under the government's radar, and corruption, which everyday citizens are familiar with. But

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