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INDIAN ECONOMY AND DEMONETIZATION

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Abstract

The present paper explains about the Indian economy and demonetization. Demonetization is an established practice in monetary policy to tackle black money. The Prime Minister has explained why this is a financial surgical strike. It was meant to be suddenly implemented. In the past demonetization has taken place twice but it fails because the idea is to tackle black money existing in circulation.

The Demonetization in India is the very big move in the country. In the single move, the government has attempted to tackle all the three issues affecting the economy i.e. parallel economy, counterfeit currency in circulation and terror financing. It is the Prime Minister's master stroke by which he has reportedly destroyed the base of corruption in India.

Keywords: Demonetization, Indian Economy.

Introduction

Demonetization however uncommon still countries all over the planet have led demonetization measures for different reasons. Government decides to go through demonetization as the cash gains out of influence because of the issues of excessive inflation. To forestall criminal activities, for example, falsifying, illegal intimidation or tax avoidance government took such an action.

India had an encounter of demonetization of its money two times previously. The previously was when Rs. 1000, Rs. 5000 and Rs 10000 notes were removed from course on twelfth January 1946, a year before the Independence. The most elevated group note at any point printed by RBI in India was Rs. 10000 note presented without precedent for the year 1938. Anyway every one of the three of Rs. 1000, Rs 5000 and Rs. 10000 notes were again once again introduced in 1954. The second period of demonetization was done on sixteenth January 1978 when a mandate was proclaimed to progressively get rid of notes with section of Rs. 1000, Rs 5000 and Rs. 10000.

On twelfth January 1946 demonetization was turned to yet the Direct Tax Enquiry Committee in its break report noticed, Demonetization was not effective then, at that point, on the grounds that main a tiny extent of complete notes available for use were demonetized in 1946 and its value was Rs. 1,235.93 crores. On sixteenth January 1978, demonetization of high category notes was presented. The high demonetization notes as on that day added up to Rs. 146 crore and all out notes offered to RBI added up to Rs. 125 crore according to information accessible till August 1981.

The government has implemented a major change in the economic environment by demonetizing the high value currency notes of Rs. 500 and Rs. 1000 denomination. These ceased to be legal tender from the midnight of 8th of November 2016. People have been given up to December 30, 2016 to exchange the notes held by them. The proposal by the Government involves the elimination of these existing notes from circulation and a gradual replacement with a new set of notes. In the months to come, this squeeze may be relaxed somewhat. In other words a national security concern and second, to underlines or eliminate the "Black economy". There are potentially two ways in which the pre demonetization money supply will stand altered in the new regime: one, there would be agents in the economy who are holding cash which they cannot

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explain and hence they cannot deposit in the banking system. This part of the currency will be extinguished since it would not be replaced in any manner. Second, the government might choose to replace only a part of the currency which was in circulation in cash.

Review of Literature

Deodhar, Rahul Prakash (2016), The Government of India announced that the Rs 500 and Rs. 1000 denominated currency notes will cease to be legal tender. The move was targeted towards tackling black money, corruption and terrorism. After initial euphoria, questions began to emerge. What are the costs of this demonetization? Will it be effective if people can still create new black money thereafter? Will it increase the GDP? Will it increase inflation? What about tax revenues? We look for answers.

Abdul Aleem (2010) This paper examines the transmission mechanism of monetary policy in India. Considering the external constraints on monetary policy, it estimates a series of vector auto regression models to examine the effects of an unanticipated monetary policy tightening on the real sector. The empirical results suggest that the lending rate initially increases in response to a monetary tightening. Banks play an important role in the transmission of monetary policy shocks to the real sector.

Sharma, Saswot (2015), Terrorism, white collar crime and organized crime usually are inevitable fact and black truth on human civilization. They need funds for operation and all the illicit money gathered cannot be used for operation until and unless it is cleaned by the means on Money laundering. Money laundering usually occurs in three steps: Placement is the transfer of illegal activities' proceeds into financial systems without attracting the attention of financial institutions and government authorities. Money launderers accomplish this by dividing their tainted cash into small sums and executing transactions that fall beneath banks' regulatory reporting levels. Layering is the process of generating a series of transactions in order to distance the proceeds from their illegal source and to obfuscate the audit trail. Common layering techniques include outbound electronic funds transfers, usually directly or subsequently into a - bank secrecy haven, or a jurisdiction with lax recordkeeping and reporting requirements, and withdrawals of already placed deposits in the form of highly liquid monetary instruments, such as money orders or travelers checks. Integration, the final money laundering stage, is the unnoticed reinsertion of successfully laundered, untraceable proceeds into an economy. This is accomplished through a variety of spending, investing and lending techniques and cross-border, seemingly legitimate transactions. Independent auditors have a responsibility under SAS no. 54, Illegal Acts by Clients, to be aware of the possibility that illegal acts may have occurred, indirectly affecting amounts recorded in an entity's financial statements. If an accountant believes the consequences of the money laundering have not been properly accounted for or disclosed on the financial statements, SAS 54 states that the auditor should Criminal Financing Forensic Audit 5 Saswot Raj Sharma /ICAI/ Feb 14 express a qualified or adverse opinion on the financial statements. If the client refuses to accept the auditor's modified report, the auditor should resign. Punishment: Generally, internationally the punishment is usually as follows: (a) A person who finances in terrorist activities shall be punished by an imprisonment up to five years and a fine equal to the amount used in offence and where such amount is not identified up to five hundred thousand rupees. (b) A person who commits money laundering offence under Chapter-2 of the AMLA except one mentioned in Sub-Section (1) shall be punished by an imprisonment between one and four years and a fine equal to the amount used in the offence. (c) An additional punishment of ten percent shall be awarded where a public official or the chief or official of a bank, financial institution or non-financial institution is involved in the offence.

Positive Impact of Demonetisation on Indian Economy

1. **Mind food expansion:** Owing to a significant withdrawal of money available for use, demonetisation prompted a keep an eye on food expansion in the economy. Liquidity crunch prompted a considerable fall in storing of food grains. Likewise, there was a sharp fall in food expansion by around 240 fundamental focuses.
2. **End of phony cash:** There was 100 percent disposal of phony money (fake money) from the economy. The mobsters of phony cash were severely harmed just with one stroke of the public authority.
3. **Flood in Cash stores:** There was a flood in real money stores in Jhan Dan Accounts. This elevated monetary consideration to its top stuff. As per RBI gauge, Rs. 11.5 lakh crore cash was stored in the banks following demonetization.
4. **Assault on Hawala Transactions**: Hawala exchanges (stowed away exchanges and move of cash) were profoundly harmed as money nearly vanished from the economy.
5. **Acknowledgment of Overdues**: People raced to clear their overdues connected with bank

credits, local charge, power bills and so on the grounds that the public authority gave a window of clearing the old duty by utilizing the old (demonetized) money

6. **Push towards digitization**: With cash nearly vanishing from the market, individuals were headed to advanced methods of exchanges. This was a major move towards credit only economy. It likewise advanced financial propensities for individuals, a major jump towards monetary incorporation.
7. **Charge Compliance**: A shift from money to banking exchanges prompted better expense consistence. The public authority recorded a perceptible ascent in duty to GDP proportion.
8. **Land purifying**: Demonetisation prompted a profound purging of land area. This area filled in as the centre stage of shadow economy. With the destruction of dark cash following demonetisation land area lost its sheen for theoretical speculation through dark cash. Costs in the land area have crashed and lodging is turning out to be more reasonable for the center and the lower segments of the general public.

Adverse Consequence of Demonetisation on Indian Economy

1. **A Deep Hurt to Economic Sentiment**: forbidding almost 86% of the cash available for use prompted a genuine cut in financial base of the country: the money related base declined from Rs 22.5 trillion to Rs 13.7 trillion and this made a profound hurt monetary feeling in the homegrown economy. Monetary movement is driven by financial opinion and on the off chance that financial feeling is harmed, monetary action should endure. Thusly, following demonetisation, all boundaries of monetary action (creation, utilization, venture and trade) got a major shock. The makers arranged lesser result, purchasers arranged lesser utilization, financial backers arranged lesser speculation and trade began contracting and there was a climate of monetary lull.
2. **Huge** - scale lay off in sloppy area: Nearly 90% of the labor force in India is occupied with the casual area to acquire their work and they are exceptionally cash ward and money delicate. A tremendous cut in liquidity following note boycott prompted a momentary cut underway exercises. Subsequently, there was a huge scope lay off in sloppy area and every day workers lost their positions following demonetization.
3. **Scratch in GDP developmen**t: Massive lay-off and declining monetary feeling inferred a critical gouge in GDP development. As indicated by most gauges including one by Prof. Manmohan Singh, the previous Prime Minister of the country), there was almost a 2 percent decrease in country's GDP development as a result of demonetisation.
4. **Droop in Real Estate**: Demonetisation has prompted droop in land area of the economy. This area has been one of the excellent GDP drivers in the Indian economy. Almost certainly, 183emonetization has purged this area of dark cash exchanges. And yet, buy and deal in this area has contacted the stone button. Development movement has been seriously hit while stock has stacked up. Chances of work have evaporated. The desire for restoration of this area is somewhat hopeless and remote. Stagnation of land area will undoubtedly be a not kidding bottleneck in the general development cycle of the Indian economy.

Conclusion

Financial analysts are occupied in calling attention to the upsides and downsides of the demonetization strategy yet the public authority thinks that the previous offsets the last option. Despite the fact that there is enduring and desolation among the majority yet the public authority is exceptionally hopeful and point out that the advantages of this strategy will be obvious over the long haul. Note boycott in India has shown great outcome in the end of dark cash and destruction of defilement. Government should go to every one of the fundamental lengths to limit the difficulties being looked by general society. It is normal that demonetisation strategy will achieve positive changes in our economy. Following points should be kept in mind:

- The public authority should go to vital lengths to eliminate the adverse consequence of demonetisation on Indian economy and for this, the public authority can detail an exceptional board of trustees which include specialists from different areas. The public authority ought to occasionally distribute the information with respect to demonetisation to foster mindfulness among individuals about the advancement.
- Teach everybody about the utilization of e-wallets and charge card and Mastercards with the goal that the motivation behind making our economy to be a credit only economy transforms into the real world.
- Studios and classes ought to be coordinated for individuals of provincial regions who don't know about net financial framework.
- More branches ought to be opened in rustic regions where there is no financial office.

- Zero equilibrium ledgers ought to likewise be opened up in private banks so it can draw in low-pay gatherings or individuals of rustic regions.

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