

- Volume 4
- Special Issue 2
- September 2017
- ISSN: 2349-8684

Special Issue Editor
Dr. A. Mayil Murugan



A Peer Reviewed, Refereed & Quarterly Journal
with Impact Factor

ROOTS

International Journal of
Multidisciplinary Researches

JOURNAL WITH
IMPACT FACTOR 3.487



IMPACT OF DEMONETISATION ON INDIAN ECONOMY

Dr. R. Radhika Devi., M.Com, M.B.A, M.Sc. (Psy), M.Phil, Ph.D
Women Studies Centre, Madurai Kamaraj University, Madurai

S. Chitra Devi., M.Com, M.Phil. Director (i/c)
Research Scholar, Department of Commerce, Madurai Kamaraj University, Madurai

Abstract

India is largely a cash-driven economy, though a rapidly growing percentage of the population is becoming tech savvy. A shadow economy reliant on cash transactions and evading taxes, especially on high value transactions such as real estate purchases, gold, and intrinsically illegal activity, has taken deep and highly persistent root. Counterfeiting of Indian rupee notes and their subsequent use in funding of terrorist activities has also been an important concern. This initiative of the government to attack corruption will make it hard for those in possession of black money to use it. The aim of taking out Rs 500 and Rs 1000 notes out of the circulation in the market is to reduce the amount of illegitimate money in the economy. According to the economist the notes which have high value make it much easier for black money to move around the country.

Keywords: Black money, Illegitimate, Corruption, Economy, Counterfeit

Introduction

Demonetisation is the act of Banning /taking back of a currency unit of its status as legal tender. Demonetisation is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit. Such a step, for example, was taken when the European Monetary Union nations decided to adopt Euro as their currency. However, the old currencies were allowed to convert into Euros for a period of time in order to ensure a smooth transition through demonetisation. Zimbabwe, Fiji, Singapore and Philippines were other countries to have opted for currency demonetisation.

The Government of India has implemented a major change in the economic environment by demonetising 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.

The main objective of this step is to unearth the black money, to curb corruption, counterfeit currency as well as terror financing. This step is considered as the biggest cleanliness drive

against the black money in the history of Indian economy. As per RBI, 87% transactions in India are cash transactions and this loophole is used by corrupted people to build a parallel economy with unaccounted money. This parallel economy helps in terror financing which in turn hampers the growth and development of country. Currently high- values notes account for total value of 86% of the notes in circulation in India. It is expected that this step will help in reducing the fiscal deficit of India and promote the cashless economy in India which can be easily monitored.

Historical facts about Demonetisation in India

The government's move to demonetise, even then, was to tackle the issue of black money economy, which was quite substantial at that point of time. Although the history of demonetization in India dates back to the time when various rulers ruled this country, the freshest and most significant instances of demonetisation in India are:

- On 12th January 1946, Rs. 500, Rs. 1,000 and Rs. 10,000 notes were declared invalid as legal tender.
- New notes of Rs. 1000, Rs. 5000 and Rs. 10,000 came into economy in 1954.