

Opportunities and challenges of demonetization in India

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Abstract

Black money, crime, corruption fraud and terrorism are spreading like cancer in the India which is stepping towards developed nation. Demonetization was a very surprise announcement made by Prime minister on 8th November 2016. Five hundred and one thousand paper notes were legally banned from the midnight of 8th November 2016 to curb black money and funding of terrorism. Though the objective behind the demonetization was to restrain the black money, to check the corruption, eliminate the flow of fake currency etc., but, this declaration led to cash less economy and grabbed unbanked community of the nation under the ambit of formal banking services. Demonetization affected the informal business activities and unbanked people in the society. The demonetization has motivated the entire economy to adopt digital banking system and use of cashless or less cash.

Keywords: Demonetization, Black money, Digitization

1. Introduction

White collar crimes which include financial crimes and economic crimes is increasing day by day in India. It is found very difficult to get the reports regarding white collar crimes reported in any Official Crime Report in India. "As per the gathered data from different sources, in the year 2010-11, 71 white collar criminals arrested in 2010 which increases up to 148 in 2011. In 2012, Economic Offence Wing (EOW) of Delhi Police arrested more than 163 criminals in 1358 cases and attached property estimated to 300 to 500 crores of rupees. Financial Action Task Force stated 1704 cases of money laundering are currently under probe in India where conviction rate is shocking three percent. Only five people convicted over money laundering cases in the last seven years in India" (Radhanath. Pyne). These white collar crimes are to be totally rooted out and make India a corruption free economy. Prime Minister Narendra Modi addressed the nation on 8th November 2016 at 8 pm and declared to demonetize the bank notes of Rs.500 and Rs.1000 denomination. Whether, this decision taken will have a positive or negative impact on Indian economy is a big question. The paper makes an attempt to study the pros and cons of demonetization on Indian economy. The study is made by making use of secondary information from various resources.

1.1 Objectives of the study

With the recent implementation of demonetization for curbing black money and check the corruption in India, it becomes imperative to study the effect of demonetization on the economy of the county. Therefore, the objective of the study is to examine the impact of demonetization on Indian economy.

1.2 Research Methodology

The study is based on the secondary data and the data was collected from newspapers, books, magazines and internet sources.

1.3 Need of Demonetization

India is country which is fast developing economies in the world. The country, which is world's second populated nation, is filled with crimes and corruption. Especially, crimes like accumulation of black money and funding of terrorism are spreading like a cancer in the country which should be totally eradicated from the root level of the system.

The Black money which is defined as, the white paper on black money(2012)^[2] as assets or resources that have neither been reported to the public authorities at the time of their generation nor disclosed at any point of time during their possession in addition to wealth earned through illegal means. Black money would also include the legal income that is concealed from public authorities, to evade payment of taxes (Income tax, excise duty, sales tax, stamp duty, other statutory contribution etc.). Black money arising and created out of illegal activities such as crime and corruption and created out of criminal activities like racketeering, trafficking, smuggling, robbery, kidnapping, cheating, bribery, illegal trade ect. It is believed that, black money is held in the form of gold, diamond, jewellery and investment in real estate businesses. To attain sustainable and overall growth and development, there is need of corruption free economy in the country. On 8th November 2016, it was a tremendous step taken by Prime Minister Narendra Modiji to fight against funding of terrorism and eliminating black money.

Demonetization is a solid step taken to restrain financing of terrorism and for eliminating Black money. Demonetization is an act by which Government of a nation strips the circulation of one or more than one currency unit of its status as a legal tender. Government of India announced to demonetize the bank notes of Rs. 500 and Rs. 1000 denomination. The objectives behind the demonetization 2016 were to curb the black money, check the corruption, expand the tax base and eliminate the fake currency and funding of terrorist activities. Through demonetization, the unaccounted money can be brought back to the formal banking sector by allowing limited exchange and unlimited deposit of old notes in bank accounts by the end of 2016.

1.4 Privileges of Demonetization

- a. The demonetization decision taken by the Government helped to eliminate black money and corruption to larger extent by implementing PAN card requirement for cash transaction beyond Rs. 2, 00,000.
- b. The demonetization weakens or hits the terrorists by making them financial weak and funding can minimize the terrorist activities and make fake currency worthless.
- c. The Benami law which was legislated in the year 1988 was not implemented. It was amended and has been put into action.
- d. With more digital or online transactions the nation can achieve less cash or cash less economy or digital economy.
- e. Demonetization will promote financial inclusion by bringing unbanked under the ambit of financial services.
- f. More transparency can be achieved in financial transactions by producing valid identity cards to the banks for exchanging the money.
- g. Through digital transactions more money is deposited and the Government can utilize the funds for economic development.
- h. Demonetization has forced people to use debit cards, ATMs, online payments and digital transactions.

1.5 Difficulties of Demonetization

- a. The huge amount deposited by the public in the bank will be heavy liability to the banks, which become liable on the part of banks to invest the funds efficiently.
- b. The RBI and other banks involved in management of demonetization will have to bear huge costs of printing new currency, transportation costs and other overhead costs.
- c. Absence of money in the hands of the people have largely reduced the spending and shopping which have adversely affected the trading activities.
- d. Small business that primarily is dependent on cash transactions has sharply impacted the productivity due to shortage of cash in hand.
- e. Black money which is in the form of gold, jewellery, real estate and foreign currency could not be traced.
- f. India which is developing country needs longer time to make cash less economy. The rural and poor find difficult to go for digitization. It is difficult to find ATMs, fast and reliable internet connections.
- g. Cyber security, online fraud, hacking etc., are the other major problems faced.

2. Conclusion

Demonetization will have appositive impact in long run. The funds accumulated after demonetization can be used on overall economic growth and development. Through digitization the transaction will be transparent and would cleanse the economy and make the economy corruption free. But, it is very difficult to trace the bulk of black money held and hidden in the form of foreign currency, gold, precious metals, real estate investment and other illegal or benami transactions. Since it is in infant stage we have to wait and watch its impact on curbing of black money in the long run.

3. References

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