

UPSC - IMPACT OF DEMONETIZATION

POSITIVE

- **Elimination of counterfeit currency**

It is not rocket science to understand that counterfeit currency is generally circulated in highest denomination notes to impact most. So, by demonetizing the highest currency notes India could almost eliminate 100% fake currency out of circulation in one stroke.

- **Abolish black money**

People having black money generally keep their black money in highest denomination currency notes. This step would abolish black money from the economy as the owners will not be in a position to deposit the same in the banks.

This step would make black money kept in cash which generally used to create chaos and terror or is lying with terrorists, Maoists, naxalites, scrap.

- **Strengthen Indian Banking System**

This will automatically lead to more amounts being deposited in Savings and Current Account cash laying out of economy flow is now coming into circulation. This in turn will enhance the liquidity position of the banks, which can be utilized further for lending purposes.

- **Financial inclusion for Jan Dhan account holders**

Government opened Jan Dhan accounts for financial inclusion purpose, but people were reluctant to keep money in the bank, but after this step of government, people will start depositing their cash into banks thereby strengthening Indian banking system, citizen are and will become beneficiaries of financial inclusion!

- **Higher Tax Collection**

This led to higher tax collection as business men are depositing cash lying with them as current year income with advance tax. Defaulters of bank, property tax, electricity bills and telecom bills are clearing their long pending bills and thus utilizing their old currency notes.

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NEGATIVE

- **Adverse impact on informal sector**

Players of informal sector as they mainly deals in cash only are facing tough time due to this Demonetization scheme already. Sudden removal of cash from market put their business on a dormant phase.

It is important to understand that their income is not black as they don't come under income tax slab because of less income which has become even lesser now.

- **Plight of Primary Producers**

Lack of liquidity would result in distress to primary producers who don't have much money, so that they could hold their produce for long and on the other side due to lack of currency in flow they are offered very less by the buyers in the market.

- **Non-acceptance of Old currency regardless Government Orders**

Many prescribed business houses and establishments are **not accepting old currency notes from common people**, thus leaving them helpless. The fact that such people have no remedy against such people/business houses make the situation worst.

Milk Booths, Chemists, Petrol Pumps and Safal Stores etc. are among others. These are dealing with basic necessities of common people.

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- **Deflation**

Price level is expected to be lowered only marginally and temporarily due to moderation from demand side.

Small vendors who generally deals in cash would now start using cashless modes for transactions or digital methods.

- **Price cut in Real estate**

As we all know the hype in real estate prices is because of the circulation of black money in this market. Now from this step almost all that black money would get out of circulation from this sector. Eventually the sky touching prices of properties will come down to the reach of a common man. Finally a common man can buy his dream home soon. Hopefully!

- **This Step will make Rupees Strong.**

How? Let's understand.

Currency exchange rate of any country depends upon reserve assets which includes a country's holding of foreign currency and deposits, securities, **gold**, IMF special drawing rights (SDRs), reserve position in the IMF, and other readily available claims.

Let's take an example.

Assume India has a reserve assets as 100 kg. Gold against which government has issued Rs. 500000 on the other hand USA with same reserve assets issues \$100000.

Now it means 1 kg gold would cost Rs.5000 in India and \$1000 in USA (\$ purchasing power far better than Rs.) (Assuming all other factors affecting value of currency as constant.)

Now from above equation we can draw a conclusion that Rs.5000 = 1000 dollar. It mean 5 rupees is equal to 1 dollar.

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- **Possibility of breaking Riots**

There are **many anti-state elements** present in the society who are **trying to spread unrest in the society**. They can exploit the situation and incite those disheartened people to **make a platform to break riots**.

- **Excessive burden on bank employees**

This is a clear fact that there is an **excessive burden on bank employees** to cope up with the situation and even after working so hard they are **not able to satisfy the need of people**.

- **Decrease in demand**

This is a fact that black economy do support the real economy from demand side, that is to say black money used by the consumers to buy goods or services increases demand for those. Although you may say this is unethical or wrong but it is beneficial from economy's point of view.

- **Violation of rule by general public**

Many people are entering ATMs and **using 3-4 different ATM cards and withdrawing 4X cash** than the prescribed limit for one person, thus violating

Now this step will throw the black money out of circulation. Eventually bank will received less money. According to RBI's data total value of currency in form of Rs.500 and Rs.1000notes is 16 lakh Crores. Now suppose, if out of this even 4-5 lack crore rupees are counterfeit or unaccounted money which were in circulation. Eventually the government will also print less money, it means value of rupees will increase in comparison to foreign currency.

It will enhance the value of Rupee common people holding. It will result into cheaper foreign imports, cheaper study in abroad etc.

- **A Speed Breaker for Corruption**

This step of government will subdue corruption up to a certain level and for a considerable time period which in return will attract foreign investor to Indian market. Indian market has been the first choice of investors considering it's large size and huge number of consumers. Till now they were reluctant to invest in India because of prevalent corruption and red-tapism. Now we can say that India has overcome both the barriers.

- **Bank Rate Cut**

Larger the money in circulation results in better the conditions of banks now banks no longer for a considerable time from now face liquidity issues. That will result into lower Bank rates. You will have to pay less interest on EMIs.

the limit prescribed by the government.

- **Chances of incarnation of De facto currency**

De facto currency is a currency that is not recognized by the government as legal tender, but is accepted by a majority of the population. The US Dollar, for example, is accepted in Cambodia as a *de facto* currency. Similarly if required money is not injected into the circulation there are chances that people belonging to different regions would start using old currency as de facto currency.

I would like to conclude by saying Black money is like 'Asura Raktabija' which cannot be abolished with just one blow. We have to strike on it's weak point again and again and have to ensure that it should not born again to completely destroy it.

In spite of the initial hiccups and disruptions in the system, eventually this change will prove beneficial for the nation in long run.