

Demonetisation In India

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"Demonetization is the act of stripping a currency unit of its status as legal tender".

Demonetization 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. The demonetisation of high value currency denominations featuring Rs 500 and Rs 1,000 notes were banned effective 8 November midnight by Prime Minister Narendra Modi in a televised announcement. While the ongoing changes are likely to engender painful side effects in the short term, the long term benefits of the Modi government's crackdown on tax evasion and black money are undeniable. Some of the benefits of demonetisation are:

- 1.) In these 2-3 months, due to shortage of cash and India will move digital.
- 2.) A lower cost of capital and higher flows into the financial services sector.
- 3.) The informal sector shrinks on the back of a crackdown in the black economy
- 4.) On the back of the GST implementation, the formal organised sector is likely to gain market share.
- 5.) There might have a paralysing effect on economic activity levels in the short term but the long term effects would be remarkable.
- 6.) This will boost the flow of savings into the financial system to a significant extent as crackdown on black money is preventing people from parking their savings in physical assets such as gold and real estate.
- 7.) As the quantum of financial savings increases, the cost of debt capital in India should fall.
- 8.) As the size of paper currency will substantially shrink, volume of trade business will grow through plastic transactions.

9.) 86 percent of the total money circulation wiped out from the system.

10.) New currency notes will help the government to track people who are having large sum of undeclared cash or we can say black money.

11.) Due to demonetisation activities like terrorism funding, gambling, money laundering activities will get reduced for some time and also it will take years for people to generate that amount of black money again.

12.) Disclosing real income by depositing money in the bank accounts, government gets a good amount of tax revenue which can be used for society.

The government is finally able to bring the focus back to the economic growth. This one big step has completely changed the way India has functioned all these years. It is making India fundamentally strong. We should not judge the big decision by just looking at one or two quarters impact but should think of long term healthy financial structural growth. Such growth, when matured, will justify with the people who are honestly paying taxes or the investors who invests money with the hope of impartial return. Also, as the transactions are going electronic, with the passing time, the giant bubble of black money will burst. In the short term, country might meet the problem like inflation, retail margin, etc but as the currency flow comes back on track, such problems will abolish.