

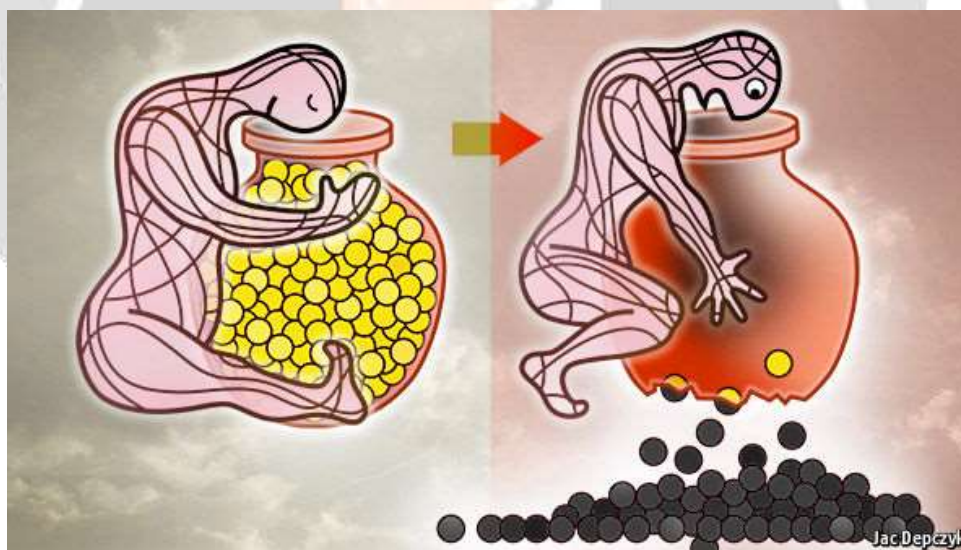
DEMONETISATION – A boon or a curse

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It was the evening of 8th November, 2016 and almost dinner time for almost every Indian citizen. Suddenly my mobile started to ring and number of messages started to circulate regarding demonetisation. I can guarantee that on that day almost every news channel will be having the highest of TRP (Television Rating Point) of 2016. The country was taken by a shock. In no time, the petrol pumps were crowded and ATMs were flooded by people. So much so we haven't been surprised by the victory of Donald John Trump – President elect of United States. Here in this article, I am trying to throw some light on pros and cons of the same.



Pros :- One of the biggest benefits of this historic modification is that it is going to affect the corrupt civilian and practices. People those who are holding black money in cash won't be able to exchange much because they would be in a fear of getting penalised and prosecuted by the authorities. Enemies of the country which are involved in counterfeit currency and one of the biggest social evils of the society i.e. terrorism will not be able to continue it further for quite some time at least. The smuggling of arms and dealing with the terrorist will not sustain further as all of the money will be on record soon. Moreover, the society will start getting depended on "plastic cash". Cashless society will be in function. The digital payment platforms such as paytm, freecharge and so on has got hype as it is more depended on cashless transactions. Furthermore, Banking System will get a boost, as more than Rs 7-8 lakh crore base money (new legal money) will enter the system. However, it needs to be seen how much money actually remains in the system, once the cash withdrawal limits are eased. Thirdly, it will reduce the risk of cash handling as soft money is safer to handle than hard money. It will also reduce government liability. Since every note is a liability for the government, the old currency will become worthless for those people, who choose not to disclose their income. Thus, this will extinguish government's liability to that extent. Thus, it will also reduce tax avoidance. Whatever money will be deposited or exchanged, authorities are going to keep a track of it and they will be extra cautious in this period. Dealing in this period in sectors like

jewellery and real estate will be on radar and those entering into Loan transactions may also undergo tax scrutiny. Search and Seizure activities of the IT Department will also rise to curb such malpractices. Limits have already been prescribed for reporting to the IT Department those bank accounts in which excess cash deposits are being made in this 50-day window (Rs 2.5 lakh in case of individuals and Rs 12.5 lakh in case of firms). Importantly, in the longer run, tax and interest rates on loans are expected to get decrease as higher income tax collections arising from better compliance would offer scope to reduce rates over the long term. This, in turn, will drive up disposable income. This can give a positive impact on consumption demand in long term.

Cons :- As it has been nicely said that every coin has two sides. The liquidity crunch has also caused negative consequences across India irrespective of class or caste. Real estate, jewellery, retailing, restaurants, logistics, consumer durables and luxury brands, cement and some segments in retail/SME lending space are facing short term instability. Even the lower socio-economic group is also facing difficulties because of absence of constant flow of money in the market. Those companies with high level of debt will face more pressure and can face loan defaults. We cannot ignore the increased cost of operating ATMs need to be refilled more often. Also it will be a huge burden on banks. Initially, it will be very difficult to create a cashless society as more than 50 percent of Indian population is not well acquainted with “plastic money” transactions. Also for these initial months, it will be very difficult to make cash transactions of a higher amount. But the government is taking steps to improve liquidity into the system and reduce inconvenience as much as possible.

This is the major historic step which has obviously come up with advantages and disadvantages but as it is nicely said that change is nature of life and change is inevitable so we have to have accept this move with all his pros and cons.

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