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Demonetisation One Year Anniversary - GK Notes for Bank, SSC & Insurance Exams

Prime Minister Narendra Modi announced on the eve of 8th November 2016 that the 500 & 1000 Rupees Currencies will not remain legal tender hereon. This announcement garnered a lot of obvious media attention & major series of events took place soon after. Being a major event in recent history, it is important that students preparing for Government Recruitment Exams like SSC, Banking & Insurance should follow the news effectively. After a year of this notable episode, let us read a brief account of the Demonetisation One Year Anniversary. Read it carefully to know what the Objective of Demonetisation was, achievements, lessons learned due to demonetisation, comments of experts on demonetisation, etc. Prepare for various exams like IBPS PO, IBPS Clerk, RBI, SSC CGL, SSC MTS, IB ACIO, UIIC, NICL, etc., by taking our Online Mock Tests.

November 8, 2017 marks the 1st year anniversary of the announcement of Demonetisation.

It is also term as 'Anti-Black Money Day'!

What Do We Know about Demonetisation?

Demonetization is the withdrawal of a particular form of currency from circulation. It is a process by which a series of currency will not be a legal tender. It was first done in 1946 and second in 1978. Demonetization is one of the single most controversial and a groundbreaking decision was ever taken by a Prime Minister in the Indian history and it has affected many sectors.







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The **immediate objective** of demonetisation was to flush out a large amount of black money hoarded in cash, and the **long-term objective** was to convert our cash-based economy into a digital one.

India was the third-largest (in PPP terms) and the fastest-growing large economy in the world. For India to achieve prosperity for all, three ingredients are essential: a transparent, effective government, flourishing of competitive free markets, and huge investment in the poor. The economy consists of two parts: the **organised** and the **unorganised**.

- The organised sector is the large and medium scale unit which depends on much less on cash.
- The unorganised sector consists of the small and cottage sectors and agriculture.
 These depend heavily on cash transactions due to habit and lack of access to formal money markets.

So, a cash shortage caused by demonetisation did not affect the organised sector as much as the unorganised sector.

Learn about Demonetisation 2016 in Detail

Objectives - Demonetisation One Year Anniversary

- To root out corruption
- Lower cash to GDP ratio
- Encourage digital transaction
- Reduce black money





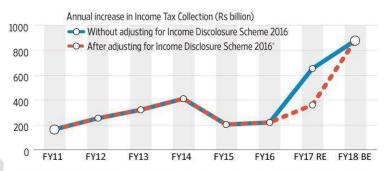


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Nature of repelling in the water is, it spreads in both the direction. It is a law of nature. In the same way, every action has both **negative and positive aspects**. But it's up to us to decide what is more important. The human brain is more creative in focusing on negative aspects at first.

EXTRAORDINARY INCREASE IN 2016-17 INCOME TAX COLLECTIONS IS DUE TO INCOME DISCLOSURE SCHEME 2016



*Income Disclosure Scheme 2016 saw declarations of Rs 652.5 billion. Given a tax rate of 45%, this would entail one-off income tax collections of Rs 293.6 billion. Adjusted value subtracts that amount from 2016-17 income tax collections.

Source: CMIE, PIB

Pros and Cons of Demonetization

Pros of Demonetisation	Cons of Demonetisation
- Death knell to fake currency rackets	- Short-term inflation
- Reducing cash flow to terror	- Inconvenience to the
organisations/ Hawala Transactions	common man
- Real estate sector became	- Slower growth i.e. 7.9% in Q1 to
more transparent	the present 6.1% in Q4
- Attack on black money holders	- Rise in Unemployment



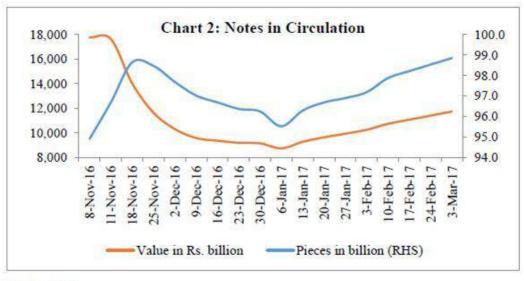




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- Universal availability of banking services online	- While output increased, a larger part of it than usual was lost due to wastage
- 9 million people have come	- It does not affect the black
under the tax net	money in foreign accounts



Source: RBI

Lessons Learned - Demonetisation One Year Anniversary

- 1. Choose your experts carefully
- 2. Don't ignore basic data
- 3. Consider human behaviour
- 4. Beware of digital silver bullets







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<u>Expert Comments on Demonetisation One Year</u> <u>Anniversary</u>

- **Raghuram Rajan**, the widely respected former governor of India's central bank: "As a country, you would want to ask what the inputs that went into that decision were." Rajan, in a new book, reveals he was **against the idea** of demonetization.
- The other natural professional, the Indian government's chief economic adviser,
 has been quiet on the matter. He is known to have been a critic of "big bang"
 policy. The chief economic adviser **Arvind Subramanian** has recently stated,
 most experts are sycophantic. He said that they literally toe the government line.
- The finance minister, recently at the third anniversary of the NDA government, said that there was no impact of demonetisation. Arun Jaitley terms Note Ban rollout as 'watershed moment' of Indian economy.
- The RBI and ministry of finance have admitted that they cannot tell the impact of demonetisation on this part of the economy.
- According to Business Standard This piece on demonetisation impact is likely to be criticised as the logical fallacy Post Hoc Ergo Propter Hoc, which means "after this, therefore because of this". This is because even before "demonetisation" was launched on November 9 last year, India was facing several macro headwinds and uncertainties (both domestic and global).

Demonetisation One Year Anniversary

This entire exercise seemed more like a **carpet bombing than a surgical strike** where the vast majority of honest and law abiding citizens had to undergo









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terrible hardships in order to catch the few black sheep who have hoarded black money and who also managed to convert their black income into white.

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