Demonetization in India refers to the act of invalidating existing currency notes and replacing them with new ones. This process has been implemented multiple times, most notably in 1946, 1978, and 2016. The 2016 demonetization, which targeted ₹500 and ₹1,000 notes, aimed to combat black money, counterfeit currency, and encourage digital transactions.
Key Aspects of Indian Demonetization:
What it is:
Demonetization is the process of a government declaring certain currency notes as no longer legal tender.
Purpose:
It is typically done to address issues like black money, counterfeit currency, tax evasion, and corruption.
Implementation:
The process involves announcing the invalidation of specific currency notes, providing a period for exchanging or depositing them, and issuing new notes.
Impact:
Demonetization can lead to economic disruption, cash shortages, and changes in economic behavior.
Examples in India:
1946: Demonetization of ₹1000 and ₹10,000 notes due to concerns about hoarding and black market activities.
1978: Demonetization of higher denomination notes (₹1,000, ₹5,000, and ₹10,000) to curb black money and discourage cash transactions.
2016: Demonetization of ₹500 and ₹1,000 notes, aiming to address black money, counterfeit currency, and promote digital transactions.
Objectives of Demonetization:
Combating Black Money: Reducing the amount of unrecorded money in the economy.
Fighting Counterfeit Currency: Eliminating counterfeit notes from circulation.
Promoting Digital Transactions: Encouraging a shift away from cash towards digital payment methods.
Improving Tax Compliance: Increasing the tax base and raising revenue.
Addressing Terror Financing: Disrupting the flow of cash used to fund terrorist activities.