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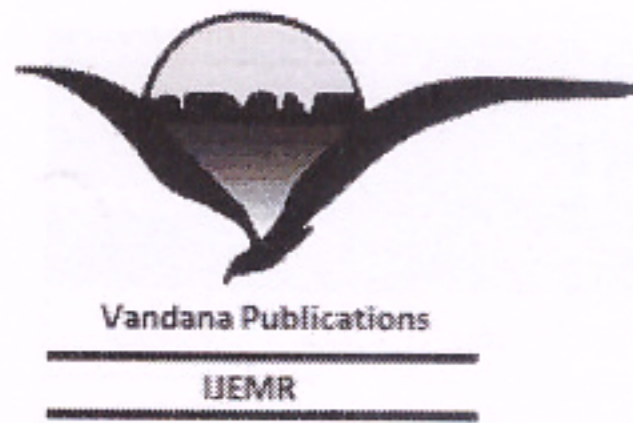
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Head Office: UG-4, Avadh Tower, Naval Kishor Road, Hazratganj, Lucknow (U.P) - 226001, (INDIA)

Phone: 0522-4106220, 0522-4108552, +91-9838604504, +91-9696045327, +91-9580061453

E-Mail: contact@ijemr.net, editor@ijemr.net, ijemrcontact@gmail.com

Website: www.ijemr.net



Demonetization Impact on Black Money, Counterfeit Currency and Corruption

Syed Mahmood Ali¹, Fahmeeda Faiyaz², Prof. Badiuddin Ahmed³

¹Assistant Professor at Ethames Degree College, Panjagutta, Hyderabad, INDIA

²Department of Second Author, INDIA

³Head, Department of Commerce, Maulana Azad National Urdu University, Hyderabad, INDIA

ABSTRACT

It's been about 6 months since the decision of Demonetization of higher denomination notes of Rs 500 and 1000 withdrawn from the circulation and new currency notes of Rs. 500 and 2000 issued for means of exchange. The decision to withdraw 86 per cent of the cash in circulation has thrown India into peril. Such a big and unexpected policy change naturally carries with it a large collateral damage at least in the short run where in India large section of the economy is comprised of the informal or unorganized sector which runs on cash.

The aim of this paper is to throw the light on how, demonetization decision show impact on Black money, Counterfeit currency and Corruption in the country. In this paper it will be analyzed to see whether the said objectives by the Prime minister of India Mr. Narendra Modi are getting accomplished after the decision.

Keywords-- Demonetization, Black money, Counterfeit currency and Corruption

I. INTRODUCTION

The sudden decision of demonetization taken by the prime minister of India, Narendra Modi, made all the Indians to stand in the lines outside the Banks for getting the new currency notes for their basic requirement. This decision made innocent people who are no way connected with the 3 major aims told to ban the 86 per cent of circulating currency are, to drain out the black money, terrorism funding through counterfeit currency sent by neighboring countries and Corruption in India. In the beginning this decision was welcomed by the country people and they wanted to bear the pain of standing in the lines for the sake of country's development and prosperity. As the time passes and situation not getting normalized people's patience was decreasing and they are getting fed

up with daily standing in the lines outside the banks putting aside important economic activities.

In a New York Times op-ed, Indian economist and World Bank Vice-President Kaushik Basu strongly criticized the policy, rightly pointing out that it's "mostly hurting people who aren't its intended targets." he further added "but demonetization is a ham-fisted move that will put only a temporary dent in corruption, if even that, and is likely to rock the entire economy."

II. AIMS OF THE STUDY

On 8th November, 2016, in his address to the nation about the objectives of Demonetization the prime minister of India said there are three major aims i.e. elimination of Black money, Counterfeit currency and Corruption from the country. In this paper it will be analyzed to see whether the said objectives are getting accomplished after the decision.

III. FAKE CURRENCY CIRCULATION IN INDIA

One of the reasons of Demonetization is Fake currency circulation in India and it is used for funding the terrorist activities. Here it is required to understand what is the quantity in terms of number of notes and its value in circulation in the Indian economy.

According to the RBI data for the year 2015-16 out of the 90.26 billion currency notes in circulation not more than 0.63 million are fake, which equals to 0.0007 per cent in terms of number of currency notes. In terms of value, out of the total 16.41 lakh crores in circulation only 0.2964 Billions is fake, which is equal to 0.0018 per cent.

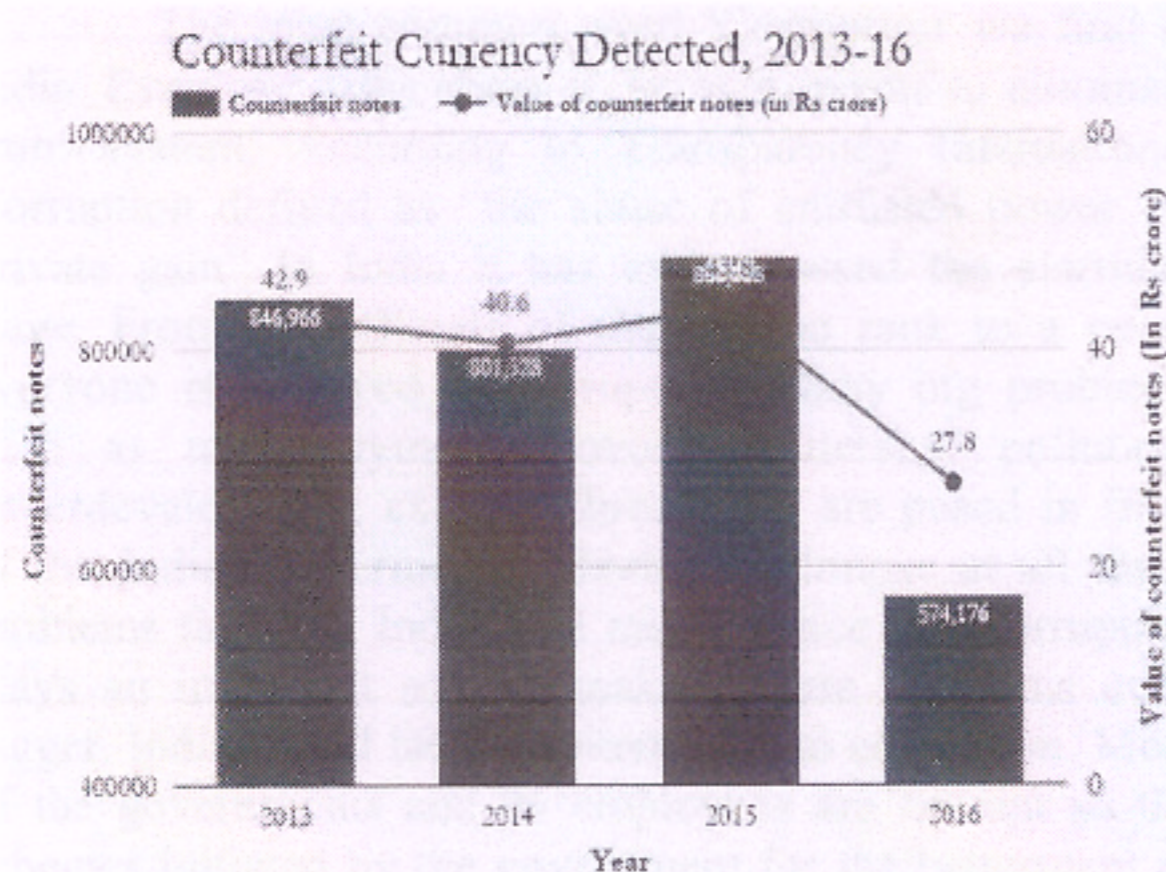
Denomination	Counterfeit Notes	Notes in Circulation	Counterfeit (%)	Counterfeit Value	Total Value
25	2	11,626 million	0	Rs 7	Rs 4,069.1 crore
10	134	32,015 million	0	Rs 1,340	Rs 32,015 crore
20	96	4,924 million	0	Rs 1,920	Rs 9,848 crore
50	6453	3,890 million	0.000017	Rs 322,650	Rs 19,450 crore
100	221447	15,778 million	0.000014	Rs 2,21 crore	Rs 1,57,780 crore
500	261695	15,707 million	0.0000167	Rs 13,09 crore	Rs 7,85,350 crore
1000	143090	6,326 million	0.0000226	Rs 14.31 crore	Rs 6,32,600 crore

Source: Reserve Bank of India, Note: Assuming number of Rs 2 and Rs 5 notes to be equal

The above data does not include the notes seized by the police and other enforcement agencies.

On November 18th 2016, the National Crime Records Bureau submitted a report to Lok Sabha on fake currency notes seized by police and other enforcement agencies for the year 2013 to 2016 (up to 30th September)

Year	Total no. of pieces of notes (for all denomination)	Total value (in millions)
2013	846966	429.02
2014	801528	405.80
2015	886058	438.34
2016 (30th Sep.)	574176	277.94



Source: Lok Sabha It is clear from the above data in the year 2015, 0.88 million currency notes with the value of 438.3 million is fake and for the year 2016 (up to 30th September) 0.57 million currency notes with the value of 278 million is seized.

According to "Estimation of the quantum of FICN in circulation", the joint study by the Indian Statistical Institute and National Investigation Agency conducted in the year 2015, to analyze fake-currency trends, especially those originating across India's borders it is clear that out of every 1 million note in circulation in India 250 notes are fake i.e. 0.00025 per cent. At any given point out of 16.41 lakh crores in circulation only 4 billion are fake notes i.e. 0.00025 per cent. This study even reveals that Rs. 0.7 billion fake currency infused every year in the Indian market and the agencies only being able to intercept one third of them. The study said that "the detection of FICN is carried out primarily by commercial banks. However, their reporting is irregular too and only three banks - Axis, HDFC and ICICI report about 80 per cent of the detection".

The report concluded that "the existing systems of seizure and detection are enough to flush out the quantum of FICN being infused". The institute says that if detection can be improved, the value of FICN in circulation can be reduced by at least 20 per cent annually.

IV. BLACK MONEY IN INDIA

On 16th May 2012, a white paper submitted to the Parliament by then Finance Minister and now President of India Pranab Mukharji stated that, there is no uniform Definition of Black money in the theory of Economics. In fact, several terms with similar connotations have been in vogue, including 'unaccounted income', 'black income', 'dirty money', 'black wealth', 'underground wealth', 'black economy', 'parallel economy', 'shadow economy', and 'underground' or 'unofficial' economy. These terms usually refer to any income on which the taxes imposed by government or public authorities have not been paid. Such wealth may consist of income generated from legitimate activities or activities which are illegitimate like smuggling, illicit trade in banned substances, counterfeit currency, arms trafficking, terrorism, and corruption.

From the above information provided in the White Paper by the Finance Minister it can be concluded that there are two ways of black money

1. Income earned legitimately but not taxed
2. Income earned illegitimately (smuggling, corruption, etc.)

Here the question arises, either of the way how much black money lies with people in the form of cash and how does the demonetization will prevent the accumulation of black money. one of the primary reason for demonetization is to wipe out the black money from the economy hence, it is necessary for us to understand

be more political than economical and made to divert the attention of nation's people from his promise to bring back the black money from abroad. We need to wait for the report of C&AG on the cost of demonetization on account of printing and transportation of currency in the nation for further analysis.

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