

# Demonetisation in India

## Abstract

The argument posited in favour of demonetisation is that the cash that would drown would be “black money” and hence, should rightfully fade out to set right the contradictory inducement structure in the economy. While the facts are not available to anybody, it would be incautious to argue that this is the only likelihood. Therefore, it is necessary to evaluate the short run and medium term impacts that such a move will have on the economy. Further, the collision of such a move would vary depending on the range to which the government settles an issue to remonetise. This paper explains in detail the impact of such a move on the chance of credit, spending, level of activity and government economic affairs.

**Key Words:** Economy, Black Money, RBI, Government, Account, Income, Currency, Cashless.

### Introduction

The government has started a major alteration in the economic environment by demonetising the high value currency notes of Rs.500 and Rs.1000 denomination. These discontinued to be legal tender from the night of 8<sup>th</sup> of November 2016. People have been given up to December 30, 2016 to replace the notes they have. The action plan of the government involves the retiring these existing notes from circulation and a substitute with a new set of notes. In the short term it is advised that the cash in circulation would be considerably less since there are limits placed on the amount that individuals can withdraw. In the months to come, this crunch may be calm some what. The reasons present for demonetisation are twofold one, to control fake notes that could be accord to terrorism, in other words national security concern and second, to undermine or eliminate the ‘black money’.

There are imaginably two ways in which the pre-demonetisation money accumulation will threaten agents in the economy who have free hold cash which they cannot explain and hence they cannot deposit in the banking system. This part of the currency will be only a part of the currency which was in circulation as cash, the rest would be obtainable only as electronic money. This could be an opportunity to force change to cashless medium of exchange. The practical area of these two components will be apparent only over the next six months. These two would have different effects on the economy in the short term and in the medium term.

### Meaning of Demonetisation

Demonetisation is the act of retiring a currency unit of its status as legal tender. Demonetisation is necessary whenever there is a break of national currency. The old unit of currency must be scrapped and restored with a new currency unit.

### Definition

1. “to deprive of its capacity as a monetary standard”.
2. “to withdraw from use as currency”.
3. Collins English Dictionary

### History of Demonetisation

On the evening of November 8, 2016, Prime Minister Narendra Modi declared that Rs.500 and Rs.1000 currency notes would no longer be looked at as legal tender. The move came in the wake of the promise he made to check black money. Ever since the declaration was made, there have been mixed response to it.

However, demonetisation is not new. Many countries in the past have tried to demonetise their currencies and mostly failed.

### Five Countries that Tried Currency Reforms and Failed

#### Ghana

In 1982, in order to minimise tax evasion, check corruption and administer liquidity, Ghana demonetised its 50 Cedi currency note. The



**Anil Kumar**

Assistant Professor,  
Deptt. of Economics,  
S.D. College (Lahore),  
Ambala Cantt

move backfired, with the public lost hope in the banking system and switching over to physical assets and foreign currency.

#### **Nigeria**

An anti-corruption crackdown was attended by the military government led by Muhammadu Buhari in 1984. He broad cast new currency notes with new colours so that old notes would be effected bootless within a bounded time frame. The aim to fix a debt-ridden and bloated economy was not achieved.

#### **Myanmar**

In order to check the black market, the country's military abolish 80 percent of the currency in 1987. The first ever student demonstration was taken oppose this move.

#### **Soviet Union**

Under the leadership of Mikhail Gorbachev in January 1991, the erstwhile Soviet Union removes 50 and 100 ruble notes, in order to blot out black money and increase the currency value. The notes alleged for a third of the total money in transmission.

Gorbachev faced a coup within eight months in August as the move was not a success. The 1991 attack led to a advantageous re-denomination of the ruble in 1998 where three zeros were detached. This was followed by another currency switch in 2010. When two more zeros were detached from the old currency. The 2010 endeavor was not as fruitful as hoped to be.

#### **Zaire**

Dictator Mobutu SeseSeko's administration laid out back-to-back currency amend along with a plan to implement destruction of the currency from the system in 1993. The reform was not well received by the public and because of increasing economic disruptions. Mobutu was removed in 1997.

#### **Demonetisation of Currency according to Indian Point of view**

Demonetization for us is a method that Reserve Bank of India has abolished the old Rs.500 and Rs.1000 notes as a authorized way to pay. According to Investopedia, "demonetisation is the act of stripping a currency unit of its status as legal tender".

#### **Modi Government's objective for Demonetisation**

The objectives of demonetisation as drawn by PM Modi on 8<sup>th</sup> Nov 2016 are being discussed in the Parliament and certain important implications that have arose are as follows.

#### **Objective I : Remove Black Money from the System**

It is a known fact that an aligned black money economy is latent in India. However, what needs to be accepted here is that only 6% of the total black money endure in the form of cash.

In fact, 90% of this black money is placed abroad in tax heavens like Mauritius and Singapore. The balance is in the form of Benami properties and Gold. Interestingly, there has been a major rush in the import of gold since 9/11.

#### **Objective I : Tackle Menace of Fake Currency**

The portion of fake currency in the system is a very small 0.028% of the total currency in

distribution. Moreover there is no pledge that the fake of the new currency cannot be arranged.

#### **Objective III : Stop Terror Funding**

It is a well known fact that the terrorists do not deal in cash, but constantly their financial backing is done through electronic transfers.

The intense fear organization utilize hawala divergence, for the most part through fake / shell companies operating out of the country to deadlock funds.

#### **Objectives IV : Reduce Corruption**

The most productive way to check bribery is not by addressing the demand side of it, but the supply side of exploitation. The biggest reason for profiteering to aggrandize in our country is the capitalization of political parties. The same diffusely browbeat the decision making also.

#### **Why Does It Occur?**

The reason given by Modi was:

1. To edicate black money in the economy.
2. To check the cash distribution in the country which "is the shortest route connected to dishonesty in our country" According to PM Modi.
3. To remove false currency and evasively tricky cash reserve which have been used by intense fear groups to fund terrorism in India.
4. The progress is supposed "to bail out more than Rs.5 lakh crore black money from the economy", According to Baba Ramdev.

#### **Who Needs to Worry?**

Not the truthful taxpayers. Even if you have Rs.10 Lakhs as cash with you and you can prove its legality, you don't need to take tension.

The aggressive deed by government is a disaster for people who have gathered lakhs and crores of unaccounted cash under their cushion and mattresses. The winter is coming and these without value pieces of paper can provide the bribable little momentary good feeling.

#### **What Experts Think?**

Almost all the stalwarts of the banking sector including Deepak Parekh, Chanda Kochhar think that the move will help curb black money in the economy. According to MD & CEO, ICICI Bank Chanda Kochhar who told, " this move will definitely bring about a whole amount of transition to no cash or law cash kind of transactions".

"A parallel black economy will collapse" one of the leading lawyers in taxation laws, Harish Salve told, ET Now.

Narayana Murthy, founder of the Infosys, welcomed the government's move in its fight against corruption. Murthy also added that "the dishonest will have to suffer; absolutely that is the right thing".

HDFC Chairman Deepak Parekh anticipated that the land will become cheaper and "one expects that real estate price will come down in medium term".

#### **Positive Impact-How?**

#### **Demonetisation to have Positive Impact on Economy". Finance Minister Arun Jaitley**

1. He said banks will be able to land more to agricultural sector, social sector.
2. He added that private sector investors will get back into economy.

Finance Minister ArunJaitley on Thursday 16 Nov 2016 said the government's demonetisation move is going to have a "a positive impact on the economy, including GDP".

"The steps that the government had taken were the right steps which were implemented in the right manner. As far as the Indian economy is concerned, including on India's GDP, it is going to be positive impact, "the Minister told reporters in the Parliament House precincts while responding to queries over the impact of the government's move to demonetise Rs.500 and Rs.1000 currency notes.

Jaitley said "there will be a positive impact because a lot of money that operates in the shadowy economy will have a lot more money to support the economy".

#### **Advantages of Demonetisation**

One of the great advantages of this deed is that it is going to intensely influence the crooked routine. People who are holding black money in cash will not be adept to deal much as they would be in a fear of getting penalized and prosecuted. Enemies of the country who are involved in simulated currency and terrorism will not be able to carry on completely for some time at least.

The smuggling of arms and business with the radical will not keep up as all of the money will be on record now.

Secondly, the banking system will become better as it will slowly head near a cashless society. Cashless people will growth credit approach and financial composition. The current white money of public will be known to the administration and it will stay with banks so that it can be put on advance, and interest can be created from it (through interest rates would fall) with a equivalent fall in inflation.

In Addition banking system will get a boost as more than Rs.7-8 lakhcrore base money (new permissible money) will come in the system. However, it remains to be seen how much money flows in the economy, once the cash removal is complete.

Thirdly, it will decrease the chance taken and expense cashmanagement as soft money is safer than hard money. It will also decreases government liability. Since every note is a answerability for the administration, the old currency will became value less for those human beings who select not to reveal their income. Thus, this will limit government's liability to that range. It is deemed that nearly Rs.5 lakhcrore may come to the government in the arrangement. This amount is plenty to take care of India's whole fiscal deficit for one year or more.

Mainly, in the longer run, tax and interest rates on loans are expected to come down as higher income tax accumulation emergent from more excellent agreement would invoke banksfield to decrease rates over the long term. This, revolution will drive up expendable income. This can give a definite collusion on devouring appeal in long term.

#### **Disadvantages of Demonetisation**

The liquidity crunch caused by demonetisation will be contradictory across sectors with high level of cash transactions. Real estate, Jewelry, retailing, restaurants, logistics, consumer

durables and luxury brands, cement and some, department in retails / SME lending scope will be backing short term imbalance. Those companies with high level of debt will face more compression and can face loan failure.

Secondly, there will be additional substitute costs of currency. We cannot disregard the raised expense accompanying ATMS need to be refilled more often and also it will be extremely large stress on banks. At first, it is very hard to develop a cashless society as more than 50 percent of Indian population is not adept in card transactions. Also for these beginning months, it will be very hard to make cash transactions of a higher amount. But the government is taking steps to provide better liquidity into the whole economy and make transition as painless as possible.

India is absolutely going to acknowledge 'AccheDin' in Modi's regime. The decision of this surgical strike on black money was not taken in a day or two. Rome was not built in a day and likewise, this plan is the arrangement of Prime Minister's meticulous planning and never ending fight to oppose corruption. As a result he has successfully made the right stroke at the right time. In spite of short term annoyance demonetisation is without doubt going to contribute an increase to the Indian economy in the long run. As of now, all of us should support this brave move of our Prime Minister and help those deprived, around us.

#### **Demonetisation Effect : Arvind Kejriwal**

Sunday and claimed that a large section of the electorate concurred with Kejriwal in opposing demonetisation "Fifty Lakh people have so far viewed Arvind Kejriwal's Assembly speech on demonetisation on social media platforms. The AAP Facebook Page saw organic growth of about 64 percent in the week of demonetisation and Arvind Kejriwal's response to it. Nearly half a crore viewers have so far on social media platforms watched the November 15 Speech of Kejriwal in the Delhi Assembly", an official statement read.

Kejriwal's speech has recorded 48,02,000 views and 1,72,128 shares on party's facebook page. The AAP national page recorded 27,000.00 views on the Assembly speech video.

"These statistics highlight the public response against Prime Minister Narendra Modi's anti-people decision of demonetisation" an AAP official said.

#### **Jan Dhan Account Deposits Swell, Mobilize Rs. 21, 000 Crore**

New Delhi: One of Prime Minister Narendra Modi's key financial reforms is likely being misused to get around another key policy, and the government official told ET that "the Jan Dhan bank that open for the poor, have seen huge deposits to the tune of Rs.21,000 crore in the fortnight since demonetisation.

Trinamool Congress ruled West Bengal leads in this sudden spurt in deposits, followed by congress-ruled Karnataka. TMC leader and Bengal CM Mamata Banerjee has been a vocal critic of demonetisation. Congress too has been critical.

**Urjit Patel's First Words on Demonetisation : RBI Trying to Ease Pain of Citizens who have been Hurt**

Reserve Bank of India Governor Urjit Patel, in his first statements since the centre's demonetisation move was announced nearly three weeks ago, said that the bank is "taking all necessary actions to ease the genuine pain of the citizens who are honest and have been hurt," PTI reported. Patel said the central bank is monitoring the situation on a daily basis.

He added that the RBI and government are making sure printing presses work at capacity to make the new notes available to meet the demand, the news reported. He also encouraged citizens to start using cash substitutes such as debit cards.

Patel's silence on the move, which was announced on November 8, has had commentators, questioning his stand, and asking whether the RBI's autonomy has been compromised. Economic Affairs Secretary Shakti Kanta Das has been handling all the public announcements, on demonetisation instead.

The congress have even demanded that he step down "Urjit Patel is either guilty of misleading the nation about RBI's preparedness on demonetization or has sacrificed the autonomy of the RBI. Either way he should resign". Party Chairperson Jairam Ramesh had said on Saturday.

Power Minister Piyush Goyal had told parliamentarians on November 2016 that a 10-member RBI panel headed by Patel had been responsible for the decision to make Rs.500 and Rs.1000 notes illegal. However, Patel has neither confirmed nor denied this.

**Aim of the Study**

Its main aim is to make people aware about the meaning of demonetisation and the importance of demonetisation in accordance to Indian point of view. Whether demonetisation is in favour of our country's economy or not?

Is the decision regarding demonetisation taken in haste? And what steps are being taken by the government regarding demonetisation?

**Conclusion**

The demonetisation is certainly a pleasant step, however, the preparation and implementation of the exercise is actively wrong. It is certain to have some definite influence at least in the short and medium terms. However, I honestly dream that the grueling exercise is over accomplished in the near future and life comes back to normal for usual people like us. Central government's recent decision to demonetise the high value currency is one of the major steps towards the eradication of black money in India. The demonetisation drive will affect some extent of the general public, but for a larger interest of the country such decisions are inevitable. Also, it may not curb black money fully, but definitely it has a major impact in curbing black money to a large extent.

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