
**INTERNATIONAL JOURNAL OF BUSINESS, MANAGEMENT
AND ALLIED SCIENCES (IJBMAS)**
A Peer Reviewed International Research Journal

Demonetization-An Overview

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ABSTRACT

Demonetization is the most important and necessary when there is a change of national currency. The old unit of currency must be removed and substituted with a new currency unit. The currency was demonetized first time in 1946 and second time in 1978. In November 2016, The Indian government has taken a bold step to demonetize the 500 and 1000 Rs (fully ban). Currency notes, these two biggest denominated notes accounted 80 per cent of the currency supply. The real picture of India will positively change and Indian economy will appear as one of the strongest economy in the world in medium to long time only as forecasted by our Prime Minister.

Introduction

Demonetization is the most important and necessary when there is a change of national currency. The old unit of currency replaced with new currency. Demonetization is the process where government declares the currently running currency notes illegal to be tender after the declaration is made. There are both pro and cons of demonetization in the Indian economy. The reasons for demonetization are to control fake notes that could be contributing to violence, and to challenge or remove the "black economy".

According to Merriam Webster Dictionary: The term 'demonetization' has its root word from verb 'demonetize'. It is a transitive verb which has various meanings as followed:

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Example: The Coinage Act of 1873 demonetized silver in favor of adopting the gold standard as the legal tender of the United States. The withdrawal of silver from the economy resulted in a contraction of the money supply, which subsequently led to a 5-year economic depression in the country. In

response to the dire situation and pressure from silver miners and farmers, the Bland-Allison Act remonetized silver as legal tender in 1878.

The main objective of this paper is to study the advantage and disadvantage of demonetization on 8th Nov. 2016 by the present government on Indian economy and system.

Demonetization in India

In 1946 Rs1,000, Rs5,000, and Rs10,000 notes were taken out of circulation in January 1946. The Rs10,000 notes were the largest currency denomination ever printed by the Reserve Bank of India, introduced for the first time in 1938. Rs. 500 and Rs. 1000 notes were introduced in 1934 and after four years in 1938, Rs.10,000 notes were introduced. All three notes were reintroduced in 1954.



That came in 1978; the then Prime Minister of India Morarji Desai announced the currency ban taking Rs 1000, Rs 5000 and Rs 10,000 out of circulation. The sole aim of the ban was to curb black money generation in the country.

The currency ban by Morarji Desai also aimed to drive away black money out of circulation in the economy. Hence, The High Denomination Bank Notes (Demonetisation) Act was implemented. Narendra Modi announced the currency ban in an address that was broadcasted across all news channels. Similarly, Desai announced the ban over the radio after which the banks were closed the following day. Both the affairs were kept confidential.

The government has implemented a major change in the economic environment by demonetizing the high value currency notes of Rs 500 and Rs 1000 denomination. These ceased to be legal tender from the midnight of 8th of November 2016. People have been given upto December 30, 2016 to exchange the notes held by them. The proposal by the government involves the elimination of these existing notes from circulation and a gradual replacement with a new set of notes. In the short term, it is intended that the cash in circulation would be substantially squeezed since there are limits placed on the amount that individuals can withdraw.

INDIA: BEFORE DEMONETISATION

In India, money is used with ten different values as listed below:

1	2	3	4	5
				
50 paise	1 Rupee Coin	2 Rupee Coin	5 Rupee Coin	10 Rupee Coin
6	7	8	9	10
				
20 Rupee	50 Rupee	100 Rupee	500 Rupee	1000 Rupee

4 New currency Notes

A. Rs. 500, according to the RBI: The size is 63mm x 150mm, colour is stone grey with Red Fort and Mahatma Gandhi's image on each side.

Features:

1. See through register in denomination numeral.
2. Hidden image of the denomination numeral.
3. Denomination numeral in Devnagari.
4. Orientation of Mahatma Gandhi's portrait changed.
5. Windowed security thread changes from green to blue when note is tilted.
6. Guarantee article, Governor's signature, RBI sign shifted towards right.
7. Picture and electrotype watermarks.
8. Number panel with numerals growing from small to big on top left and bottom right sides.
9. Denomination in numerals with Rupee symbol in colour changing ink (green to blue) on bottom right.
10. Ashoka pillar symbol on right.

B. Rs. 2,000, according to the RBI: The size is 66mm x 166mm, colour is magenta and Mahatma Gandhi's image on each side.

Features:

1. See through register where the numeral 2,000 can be seen when note is held against light.
2. Latent image of 2,000 can be seen when the note is tilted.
3. Devanagari denomination.
4. Portrait of Mahatma Gandhi.
5. Micro letters 'RBI' and '2,000'.
6. Colour shift security thread with 'RBI' and '2,000'.
7. Guarantee clause, Governor's signature and RBI emblem on the right.
8. Watermarks of Mahatma Gandhi and electrotype 2,000 numeral.
9. Number panel with numerals growing from small to big on top left and bottom right sides.
10. Denominational numeral with Rupee symbol, 2,000 in colour changing ink.
11. Ashoka pillar symbol.

C. Rs 200, according to the RBI: The dimension of the banknote will be 66 mm × 146 mm.

Features

1. See through register with denominational numeral 200.
2. Latent image with denominational numeral 200.
3. Denominational numeral २०० in Devnagari.
4. Portrait of Mahatma Gandhi at the centre.
5. Micro letters 'RBI', 'भारत', 'India' and '200'.
6. Windowed security thread with inscriptions 'भारत' and RBI with colour shift. Colour of the thread changes from green to blue when the note is tilted.
7. Guarantee Clause, Governor's signature with Promise Clause and RBI emblem towards right of Mahatma Gandhi portrait.
8. Ashoka Pillar emblem on the right.
9. Mahatma Gandhi portrait and electrotype (200) watermarks.
10. Number panel with numerals growing from small to big on the top left side and bottom right side.
11. Year of printing of the note on the left.
12. Swachh Bharat logo with slogan.

D. Rs 50, according to the RBI: The size is 66mm x 135mm. The base colour of the note is Fluorescent Blue.

1. See through register with denominational numeral 50.
2. Denominational numeral ५० in Devnagari.
3. Portrait of Mahatma Gandhi at the centre.
4. Micro letters 'RBI', 'भारत', 'INDIA' and '50'.
5. Windowed demetalised security thread with inscriptions 'भारत' and RBI.
6. Guarantee Clause, Governor's signature with Promise Clause and RBI emblem towards right of Mahatma Gandhi portrait.
7. Ashoka Pillar emblem on the right.
8. Mahatma Gandhi portrait and electrotype (50) watermarks.
9. Number panel with numerals growing from small to big on the top left side and bottom right side.

Advantage of Demonetization

There are some benefits of demonetization has given, which describes the how many people are getting the benefit after banning the currency notes.

Controlling inflation: When inflation really gets out of hand, one explanation can be to totally change the currency and to start afresh. With increase in cash available for government expenditure and

reduced state borrowing, inflation will fall for the short term and thus prices of necessary produce will also fall.

Reducing criminal activities: Money used to fund criminal activities such as terrorism and drug trafficking will be rendered useless. Hence, the government can use demonetization policy to copy money that has been made from illegal activities such as drug trafficking and robbery since such individuals are faced with only two options: either deposit the money with the bank or be left with currency that has no value.

The move to digital exchange: Some commentators dispute that in the future, we will all be using digital exchange, such as bitcoins. If this is true, then one advantage of demonetization is that it will help to propel us into the future

Improved deposits and savings in financial institutions: Parallel economies make it difficult for banks and other financial institutions to move up deposits. Demonetization reduces the size of the parallel economy and boosts savings and deposits. Demonetization can also be used to get false money out of circulation in a country's economy since such moneys cannot be deposited in banks and other financial institutions.

Large sum of unaccounted cash: The biggest advantage of demonetization is that it helps the government to track people who are having large sums of unaccounted cash or cash on which no income tax has been paid because many people who earn black money keep that money as cash in their houses or in some secret place which is very difficult to find and when demonetization happens all that cash is of no value and such people have two options one is to deposit the money in bank accounts and pay taxes on such amount and second option is to let the value of that cash reduced to zero.

Introducing new bank note designs: Demonetization is also a good opportunity to redesign bank notes. This might involve making them more durable, for example. Several countries have switched from paper notes (which tore or got worn very quickly) to more durable plastic notes, which have made their monetary system more secure in several ways.

Paying tax honestly: Demonetization has control over on those people, who are not paying of tax proper. This policy forced to people to pay income tax returns. Those people are trouncing their income now required to come forward to declare their income and pay tax on the same.

Deposit of proper tax: Under demonetization, those people even though deposits up to Rs. 2.5 lakh will not come under income tax analysis, individuals are required to submit PAN for any deposit of above Rs. 50,000 in case. It will help the income tax department to follow persons with high denominations money.

Simple to explore income tax: The ban on high-value money will also control the menace of money laundering. Now such activity can easily be tracked and income tax department can take such people who are in the business of money laundering.

Growth in a country's GDP: Due to low lending rates, improved revenue collection, and growth in savings and deposits, a country that has demonetized is likely to see an improvement in the growth of its GDP. The move has generated interest among those people who had opened Jan Dhan accounts under the Prime Minister's Jan Dhan Yojana. They can now deposit their cash under this scheme, and this money can use for the developmental activity of the country.

Catch black money: Demonetization is very essential for the government to follow the black money from India. Those persons, who have unaccounted cash, are now required to show income and submit PAN card for any legal monetary transactions. The government can get income tax return for the income on which tax has not paid.

Disadvantages of demonetization

Demonetization is not all beneficial and even proponents of demonetization acknowledge that it does have its disadvantages. A few of them are outlined below.

Slowdown in economic growth: The country registered a growth rate of 6.1 per cent in the March quarter. This growth rate is below the GDP growth of 8% in 2015-16, 7.5 per cent in the previous year and the expected growth of 7.1 per cent the current year. Demonetization seems to be the sole cause for the slowing down the GDP growth rate. Some observers also believe that the reason for the decline growth could be that as a proportion of GDP, investment has trended downwards for same time, with very few investors and companies following up with actual money after having promised to invest in India. Investment is believed to have shrunk in absolute terms by 30 per cent in 2016-17.

Problems with paying bills: If someone has sent some bank notes in the post in order to pay a bill, or if there is any important delay in processing a bill payment, and demonetization hits in the mean time, the money set aside to pay the bill can become invalid. This is more common than you might think in highly bureaucratic systems.

Inconvenience and annoyance to the public: Sometimes, demonetization can be very inconvenient. For example, sometimes the government will remove certain denominations of bank notes from circulation but keep others. It can be annoying when smaller coins are removed from circulation and you do not have enough change. Further, queuing up in banks to deposit money or exchange currency can be inconveniencing.

Cash crisis: Due to demonetization, availability of cash in the market will be very less because every currency should be deposited in the respective bank and till the time bank reissues the new currency against old, so ultimately the new currency will be very less in the market. This will affect the major industries in order to run efficiently without enough cash.

Re-calibration of ATM's: Re-calibration of ATM's is not done as rapidly as it should be done, which leads to long lines and takes more time to get our money back. Due to a very slow system many people experience serious problems. Everyone has their own job and problem so they have to deal with it anyhow.

Short term financial crisis for poor people: If people adopt a new currency and this currency is not a successful one, then it can cause a financial crisis for everyone who is involved. Even a small change in the value of everyday items, or even a small amount of confusion about whether a currency is valid can mean a lot of hardship. As such, demonetization can increase and exacerbate inequalities within society, at least in the short term.

Job losses

There was a loss of jobs due to demonetization, particularly in the unorganised and informal sector and in small enterprises. Labour union jobs were not working.

Stock market decline: as a combined effect of demonetization and US presidential election, the stock market indices dropped to an around six-month low in the week following the announcement. The day after the demonetization announcement, BSE SENSEX crashed nearly 1,689 points and NIFTY 50 plunged by over 541 points. By the end of the intraday trading session on 15 November 2016, the BSE SENSEX index was lower by 565 points and the NIFTY 50 index was below 8100 intraday.

Conclusion

Demonetization method is like a two faces of a currency because on one side it will benefit the nation and on the other side it's going to make some provisional and long term problems, Most of the business in India has money deal with less than 2 per cent business deals taking place electronically. Demonetization can be a chance for a fresh new start, or it can be something that causes unnecessary confusion for a country. There are only advantages of demonetization in the long term. The government is taking all the necessary steps and actions to meet the currency demand and make sure the smooth flow of new money. The real picture of India will positively change and Indian economy will appear as one of the strongest economy in the world in medium to long time only as forecasted by our PM. So, the Indian citizens will have to wait more for the good days and need to strongly support the PM's great move of demonetization.

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