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# **DEMONETIZATION IMPACT A PATH WAY TO REMONETIZATION**

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**Abstract:** Demonetization is a process by which a series of currency will not be legal tender. The series of currency will not acceptable as valid currency. The same thing happens with the Rs. 500 and Rs. 1000 note. On 8th November 2016, Government of India had announced that from today onward rupees 500 and 1000 rupee note will not be a legal tender. This means that 500 and 1000 rupee note will be accepted by anyone except the organization declared by government. They can change the currency from the banks and post offices till 30th December 2016. The 'demon' in demonetization is in the beginning. On November 8, Indian Prime Minister Narendra Modi announced in a broadcast to the nation that Rs500 (\$7.40) and Rs1,000 currency notes would no longer be recognized legally as currency. "Great," said Corporate India, economic commentators, foreign investors, international think tanks and global rating agencies. "Masterstroke," echoed the Confederation of Indian Industry (CII).

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**Introduction:** The aim behind the government's action was to combat tax cheating, counterfeiting and corruption. Eliminating large denominations makes it harder to hide large amounts of cash. Modi noted that the move complements the country's swachh bharat abhiyan (Clean India campaign). "For years, this country has felt that corruption, black money and terrorism are festering sores, holding us back in the race towards development," he said. "To break the grip of corruption and black money, we have decided that the currency notes presently in use will no longer be legal tender from midnight tonight." Added Finance Minister Arun Jaitley: "The goal of this is to clean transactions, [to] clean money."

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**The Birth of A Paper Currency In India:** Demonetization occurs whenever there is a change of national currency: The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Before we start with the discussion of demonetization which took place on 8th November, 2016 we will look into history of birth of paper currency as how use of paper currency had been started in India. Until the 18th century, people in India used to use silver and gold coins to carry out their day to day transactions. But then some European companies established their own banks in the region to carry out their business transactions, like the Bank of Hindustan in Calcutta.

They introduced the very first versions of Indian paper notes which then boosted the further popularized the use of paper notes. The Bank of Bengal went on to release notes that featured a small image of a female figure meant to represent the idea of "commerce," as well as the bank's name and the denomination in three scripts: Urdu, Bengali, and Nagri. However, it was only after the Paper Currency Act of 1861 that the British colonial government really got involved in producing money, establishing the paper currency as we know it today. Money was now to be issued by the state alone, not banks.

**Demonetization in India Before November, 2016:** The act of demonetization 2016 is not happening for the first time in India, but before it, has happened twice, first in the year of 1946 and then in the year of 1978. In January 1946, Rs1,000 and Rs10,000 banknotes were withdrawn but the same Rs1,000, Rs5,000 and Rs10,000 notes were reintroduced in 1954, and were again demonetized in January 1978. The second demonetization has taken place in the year of 1978 by the Janata Party government. It had decided to withdraw Rs1,000, Rs5,000 and Rs10,000 notes by issuing an ordinance on the morning of 16 January that year. The objective behind the all the acts of demonetization happened in past and happened recently is common reduction of black money, corruption and removal of fake currency.

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**State of India Before Demonetization:**

Low diffusion of Broad Band internet  
 By August 2016 only 171 million broad band connections in INDIA.  
 Majority don't have Smart Phone Facility  
 Low diffusion of POS terminals  
 Cultural Habit of India Population  
 Digital Illiteracy is less than 80 %  
 16.8 cr HHs are in rural of this, 12 cr have no computer and computer knowledge  
 Most of the operations are in English.

**Demonetization History And Background In India:** This is not the First time, When Indian Currency is Demonetized in India . Earlier it was done in 1946 with the complete ban of Rs. 1000 and Rs. 10000 Notes to deal with the unaccounted money i.e. Black Money. Second time, it was done in 1978 by Govt headed by Morarji Desai when Rs. 1000, Rs. 5000 and Rs. 10000 Notes were demonetized.

**Pros of Demonetization In India**

**Attack On Black Money Holders:** People who possess huge amounts of black money in hard cash are at a complete loss now . Their black money in hard cash is now a pile of trash. Now if a Black Money holder want to Deposit Money in Bank Account Than he/she has to Show ID . There Will Be 200 % Penalty On Income tax Amount Death Knell To Fake Currency Rackets. Most of the fake currencies used to be in the denominations of Rs. 500 and Rs. 1000 . By banning Rs. 500 and Rs. 1000 notes, Modi has busted all these unethical rackets completely . Now There Will be no use of these Money.

**End of Terrorist:** Funding Huge sums of money especially in hard cash in the denominations of Rs. 500 and Rs. 1000 was used to fund Islamic terrorists, Naxalites. Now , these Organizations will suffer from shortage of funds . Most of These terrorist , Maoist Organization used these Funds for Buying Arms and Weapons. Buying arms is an extremely difficult task now after this ban .

**Transparency:** More transparency leads to Financial Intelligence Unit Will track All Online transactions. Now there will be More Transparency in Real Estate Sector

**End of Huge Donations:** Huge amounts of donation that is taken in the private education and healthcare sectors would be stopped. Schools, engineering and medical colleges and hospitals ( private ones) used to take huge amounts of money as donations especially in the form of hard cash in the denominations of Rs. 500 and Rs. 1000. These money-minded people running these institutions won't be able to make any easy money now. Same applies to the real estate sector.

**A Cashless Economy:** While it is practically impossible to have a 100% cashless economy, the proportion of hard cash in the economy will decrease and our economy will get more digitized. This will result in greater transparency. Now government has put Some limitation for Cash Withdraw from bank Accounts. People will go for online payments. They Will use PayTM Or other online payment to companies for Buying goods or Making payments. More Use of Debit and Credit Card

**Hawala Transactions:** End like Most Hawala transactions used to be carried out in the denominations of Rs. 500 and Rs. 1000 . With this ban , Modi has delivered a fatal blow to the unethical Hawala traders as they can't trade anymore using denominations of Rs. 500 and Rs. 1000 .

**Rush at Banks:** Banks will be extremely over-crowded by people. People will forget everything else and throng to the places where the banned notes are being officially exchanged leading to a tremendous chaos.

**Shortage of Money to Common People and Stock Market:** Due to currency being sucked out of the market coupled with Trump's victory, the mood at the stock market was completely bearish. Sensex lost 1600 points at open. This can adversely have a negative effect on trade in general.

**Problem For House Wives:** Many Indian housewives store money secretly so that they could be of help during times of financial crisis in their households . The accumulated money of our respected Indian housewives is of no use now until they exchange in the banks and post- offices .Short Term Inflation. Due to shortage of money in the market, a short-term cost push inflation will occur. The price of gold has already become sky high Prices of vegetables and fruits have also soared burdening the common man .Marriage Season it is difficult For Those Families those have Weddings.

**Impact of Demonetization on Indian Economy:**

**Effects on Parallel Economy:** The removal of these 500 and 1000 notes and replacement of the same with new 500 and 2000 Rupee Notes is expected to – remove black money from the economy as they will be blocked since the owners will not be in a position to deposit the same in the banks Temporarily stall the circulation of large volume of counterfeit currency. It would curb the funding for anti-social elements like smuggling, terrorism, espionage, etc.

**Effects on Money Supply:** With the older 500 and 1000 Rupees notes being scrapped, until the new 500 and 2000 Rupees notes get widely circulated in the market, money supply is expected to reduce in the short run. To the extent that black money (which is not counterfeit) does not re-enter the system, reserve money and hence money supply will decrease permanently. However gradually as the new notes get circulated in the market and the mismatch gets corrected, money supply will pick up.

**Effects on Demand:** The overall demand is expected to be affected to an extent. The demand in following areas is to be impacted particularly: Consumer goods Real Estate and Property Gold and luxury goods Automobiles (only to a certain limit) All these mentioned sectors are expected to face certain moderation in demand from the consumer side, owing to the significant amount of cash transactions involved in these sectors.

**Effect on Prices:** Price level is expected to be lowered due to moderation from demand side. This demand driven fall in prices could be understood as follows: Consumer goods: Prices are expected to fall only marginally due to moderation in demand as use of cards and cheques would compensate for some purchases. Real Estate and Property: Prices in this sector are largely expected to fall, especially for sales of properties where major part of the transaction is cash based, rather than based on banks transfer or cheque transactions.

**Effect on GDP:** The GDP formation could be impacted by this measure, with reduction in the consumption demand. However with the recent rise in festival demand is expected to offset this fall in overall impact. Moreover, this expected impact on GDP may not be significant as some of this demand will only be deferred and re-enter the stream once the cash situation becomes normal.

**Effect on Online :** Transactions and alternative modes of payment With cash transactions facing a reduction, alternative forms of payment will see a surge in demand. Digital transaction systems, E wallets and apps, online transactions using E banking, usage of Plastic money (Debit and Credit Cards), etc. will definitely see substantial increase in demand This Will Bring More transparency In System And You can Easily track Online Money Transactions.

**Will Demonetization Slow Down India's Growth?:** Yes, Demonetization will slow down growth rate in short term and medium term because people have less money in hands. So demand is low, that is why it is hampering our growth rate. But as soon as people get money, markets will be back on track. But its long term gain is "fictional" or say "disputed". Some people theoretically says it will benefit the economy as government will have more revenue but others say giving a electric shock to the economy when its already under distress business sentiment can send it into coma. India is a cash based economy and demonetization will temporarily decrease liquidity in this economy. Decreased liquidity will lead to decreased demand which will result in decreased productivity causing a slowdown in consumer market. People have panicked due to sudden demonetization. This will force them to save and store more money. Thus, a decrease in demand leads to slowdown in consumer market.

**Conclusion:** While i laud Narendra Modi zest to rid India of any form of black money and terrorism. I must be quick to add that tackling corruption also goes beyond demonetization of currency, cash or even banking. It requires reformation of institutions and mind-sets, and carefully creating policies that understands and acknowledges the complexity of economic and social life. The government ought to understand that not all of India's shadow economy which provides real employment and income; if not real tax revenues can migrate quickly and easily above board.

The government also needs to take a bold step forward by ensuring that tax evasion is not encouraged in anyway or treated with kid gloves. It could start by ensuring that offenders are severely punished and reforming India's outdated anti-graft laws would be a step in the right direction.

The government also has to take cognizance of the fact that in a country like India, where the illegal economy is so intimately intertwined with the mainstream economy and an indiscriminate government intervention against shadow activities can do a lot of harm to the vast majority of the people. Demonetization though it has created some positive and some negative impacts on different sectors but in long run it has to definitely create a positive impact in controlling black money and fake money. Ultimately demonetization leads to Remonetization

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