

Demonetization and its Consequences

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Abstract: Demonetization refers to removal of a particular form of currency from circulation. Demonetization is necessary whenever there is a need of change of national currency. The old unit of currency must be detached and replaced with a new currency unit. The currency was demonetized first time in 1946 and after that in 1978. Many of the other countries have implemented this step to control black money like Russia, South Korea, Nigeria etc. but most of them were fail. This paper reflects the need and effects of demonetization on Indian economy. Demonetization is beneficial for some sectors while it is also negative for some sectors. Demonetization was necessary but it should be done with proper planning and policies.

Keywords: Demonetization, Black Money, e-wallet, Corruption.

I. Introduction

Demonetization is the act of withdrawal of particular currency from circulation in any country. Indian Rs. is the official currency of India and the process of when it ceased to use in the market is known as demonetization. On 8th November 2016 Indian Prime Minister Narendra Modi announced the demonetization of Rs. 500 and Rs. 1000 notes by making these notes invalid. It was an attempt to resolve the problem of black money, corruption and to remove fake currency in market.

Demonetization of currency is defined as disjointedness of the said currency from circulation and replacing it with a new currency

Startup of a paper currency in India

Before the discussion of demonetization which took place on 8th November, 2016 we will look into history of birth of paper currency in India. Until the 18th century, people in India used to use silver and gold coins to carry out their all transactions. Then some European companies established their own banks in India to carry out business transactions smoothly. They introduced Indian currency which further popularized as paper notes.

After the Paper Currency Act of 1861, the British colonial government got involved in producing the paper currency as we know it today. Now Reserve Bank of India has monopoly in producing paper currency.

Demonetization in India before November, 2016.

Demonetization on 8th November 2016 is not a new concept in India, before it, demonetization has happened twice, first in the year of 1946 and then in the year of 1978 has happened. In January 1946, Rs1,000 and Rs10,000 banknotes were taken back from public but the same Rs1,000, Rs5,000 and

Rs10,000 notes were reintroduced in 1954. The Janata Party government has taken step of second demonetization in the year of 1978 and decided to withdraw Rs1,000, Rs5,000 and Rs10,000 notes by issuing an ordinance on 16 January that year.

II. Review of literature

Mali .V (2016) worked on “Demonetization: A step towards modified India” to discuss on demonetization started by government of India. For collecting data Micro Businesses, E-Wallet businesses, online retail stores etc. sectors are covered. This paper is based on secondary data that is collected from different newspapers and online sources etc. Demonetization is the action of disrobing a currency unit of its status as legal tender. Demonetization is a process of eliminating a currency from general usage or circulation of money in a country. It is an act where the old unit of currency gets retired and changed with a new currency unit. Demonetization can also be considered as removal of a specific currency from market. Demonetization creates some positive and some negative impacts on these different sources.

Sing and Singh (2016) worked on “impact of demonetization on India economy” the main aim of this present paper is to highlights the possible consequences of this decision on various economic variables and entities. 87% part of cash in hand in country is in 500rs and 1000rs banknotes. Before India many other countries had also done this experiment like Russia, North Korea, Zaire, Myanmar Ghana and Nigeria etc. this paper concluded that demonetization affect tax rate, interest rate, liquidity, GST, money supply, parallel economy, demand and prices of goods, real state, consumer goods, and small traders also etc. Demonetization positive for e-wallet and card holders, online retails mobile wallet and e-banking while negative for agriculture, luxury goods and real state.

Kour (2016) worked on “Demonetization and Its Impacts in India” to study the impact of demonetization on 8th Nov. 2016 by the present government on Indian economy. This research paper is based on secondary data. Demonetization means withdrawal of a particular currency from market. Impact of demonetization will be on real state, election, finance, consumer goods, luxury goods, tax rate and interest rates.

Objectives

The main objective of this paper is to study the impact of demonetization on Indian economy and system.

Methodology

The paper is based on the secondary data. The secondary data was collected from various published sources like reports, magazines, journals, newspapers and the like etc.

Impact of Demonetization

- 1) Black Money and Corruption
- 2) Real estate
- 3) Gold/Silver
- 4) Digital payments
- 5) Fake Currency
- 6) GDP
- 7) Markets
- 8) Decrease in Interest Rates
- 9) Lower Inflation

A large number of rural population on India does not have bank account.

Effects of Demonetization

Demonetization generated effect on different sectors in different conducts resulting into boom for some sectors like E-Wallet businesses and somewhere resulting into impermanent slowdown like micro businesses like vegetable vendors or some small seasonal businesses, where most of the transactions are on cash basis. Many of the illiterate families have no bank account so they are suffering from stress. In India many of the steps have been taken to open accounts of illiterate population but there are many people in village area that has no bank account. Certain sectors have been covered for the study which can have major effects of demonetization.

Affected sectors by demonetization:

- a) Online retail stores temporarily stopped cash on delivery facility
- b) Disbursement Rate Microfinance Institutes' slow down
- c) Effect on Micro Businesses
- d) E-wallet firms could gain good business
- e) Small traders
- f) Political Parties
- g) Households

- h) Professionals like doctor, carpenter, utility service providers
- i) Retail outlets

III. Conclusion

Demonetization though it has created some optimistic and some undesirable impacts on different sectors but in long run it definitely will have optimistic impact in controlling black money and fake money. E-wallet will popular in future for easy transactions. Middle class people are positive towards this step taken by government. But government was not well prepared for demonetization at that time. India's demonetization move was apparently managed badly in the beginning, the effects at micro level look beneficial. For instance, all sorts of unlawful activities, like terrorist financing, etc. have been completely hit after the declaration. The demonetization process has also mended India's imitating problem for the near to mid-term. The cash-centric black market for the most part stopped to role with the nullification of the bulk of its currency. Almost studies included in this paper revealed that demonetization have some optimistic and also some negative impact on Indian economy. It is positive for modern technology like e-wallet, mobile banking and e- retailing but negative impact for agriculturist also. Government of India was not prepared to take this step at this time. All policies should be refined before implementing demonetization.

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