



DEMONEZITATION: IMPACT ON INDIAN ECONOMY

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ABSTRACT

Recently India has witnessed demonetization on 8th November, 2016 when Prime Minister Narendra Modi withdrew the circulation of Rs. 500 and and Rs. 1000 notes from economy by declaring them illegal. In this research paper efforts have been made to study the reasons and after effects of demonetization on Indian economy. History of demonetization in India as well as in other countries of the world has also been studied.

KEYWORDS : Legal status, black money, liquidity, tax evasion

Objective of study

Though it is not the first time when demonetization has taken place in India but this time the challenge was more difficult as public has become more aware and questions more about their rights as compared to the previous times when demonetization took place.

- To study history of demonetization in India and in world
- To analyse effects of demonetization on Indian economy and to know about people's reaction towards the move of demonetization
- To gain overall view of the process of demonetization

Research Methodology

Data for the research has been collected from secondary sources such as websites, newspaper and news channels. Data about history of demonetization in India and in world has been collected.

Introduction

Demonetization is done by declaring a currency unit invalid by taking away its legal status.

The move of demonetization has taken place recently in India for the 3rd time on 8 November, 2016. Earlier demonetization took place in 1946 and 1978. For the first time in 1946 notes of Rs 1000 and Rs 10000 notes were demonetized. For the second time Rs 1000, Rs 5000 and Rs 10000 notes which were introduced in 1954 were demonetized in 1978.

Moreover, India is not the only country in which demonetization has taken place. Demonetization has also taken place in many other countries such as: 1,2,5

Nigeria

In Nigeria demonetization took place in 1984. At that time Muhammadu Buhari was the President of Nigeria. He banned old notes and introduced notes with new color and design. He did this to bring economy in stable position. But the step proved to be a failure in debt ridden and inflation hit economy and as a result he had to resign and could become President again only after 21 years. Soviet union In order to curb the problem of black money, Mikhail Gorbachev government banned Ruble 50 and Ruble 100 notes. But the step did not prove successful.

Ghana

In 1982, the then Government withdrew the status of Cedis 50 as legal tender. This step was taken to deal with the problem of tax evasion and empty excess liquidity. The step had a reverse effect and people started investing in physical assets and foreign currency.

Pakistan

From December 2016 Pakistan declared all the currency notes with old design as illegal. However, Pakistan had legally issued the tender a year and a half ago which made it easy for people to exchange notes.

Myanmar

In 1987, Military Government in Myanmar discontinues currency notes. This led to mass revolt and led to death of thousands of people.

Zimbabwe

In Zimbabwe \$100,000,000,000 notes were demonetised by President Robert Mugabe. This led to drop in value of trillion dollars to \$0.5.

North Korea

To deal with black money Kim Jong Il knocked off two zeroes from face value of the currency. But the plan backfired and to starvation in the country. Finance Minister of the country was also murdered for this plan.

Why demonetization in India?

Recently, demonetization has taken place to curb problem of corruption and black money. Another motive was to lower the cash circulation in the country which is directly related to corruption in our country. This step was taken to eliminate fake currency and dodgy funds which have been used by terror groups to fund terrorism in India.

How demonetization took place?

It took six to eight months to prepare for demonetization before its declaration by PM Modi and all the things were kept highly confidential. The cabinet was informed about the demonetization on 8th November 2016 in meeting called by the Prime Minister which was followed by his public announcement about demonetization in a television address.³

As per the announcement Rs. 500 and Rs.1000 notes were declared invalid and new notes of Rs. 2000 and Rs. 500 were introduced. Where these notes were declared invalid with immediate effect, The PM however, gave certain exemptions for 72 hours. As per these exemptions old currency could be used in government hospitals, for buying fuel, medicines, train tickets, airline tickets, in government buses and for paying utility bills. Initially Rs. 4000 could be exchanged while Rs. 2000 could be withdrawn at ATMs per day and withdrawal at bank was limited to Rs. 10000 per day and Rs. 20000 per week. These rules were altered many times for convenience of public.

Public had mixed reaction towards the step of demonetization. Some were of the view that it is done to favour big business men while other thought it was for benefit of general public and were ready to suffer any pain for success of this scheme.

Pros

1. All black money was either deposited in banks or became useless.
2. It brought more borrowings to the exchequer, improve inflation outlook and increase India's gross domestic product
3. It revived investment opportunities and gives a fillip to infrastructure and the manufacturing sector.

4. It helped to reduce interest rates and lower income tax rate.
5. Step of demonetization affected real estate transactions which were carried out in black money.
6. Demonetization has crippled the hawala rackets.
7. Demonetization has dealt a death blow to fake currency.
8. Terrorism was adversely affected as all the black money which was used for their operations was rendered useless.

Cons

1. Demonetization caused a lot of inconvenience to people who had to stand in long queues to exchange money or deposit or withdraw currency
2. Demonetization led to deflation in economy as it reduced the flow of cash in economy by rendering useless the black money which was in denomination of Rs.500 and Rs.1000 notes.
3. Daily wage earners were hit hard by the step of demonetization.
4. Large sum of money had to be spent by RBI to make the step of demonetization possible.

Conclusion

In early stage the step received appreciation from youth and was highly opposed by opposition. People were of the opinion that the step might have been taken for good of general public but preparation was not adequate. Sufficient notes were not printed for supply, so banks had shortage of new currency to provide to general public. The BSE SENSEX and NIFTY stock indices fell over 6% on the very next day after the announcement. People seeking to exchange their bank notes had to stand in queues, and several deaths were linked to the inconveniences caused due to the rush to exchange cash. In all, public gave adequate support to Government inspite of all hardships they have to face. All this support was in hope that in long run demonetization will help them by fulfilling their long time dream of corruption free, terror free and prosperous India.

References

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