



## DEMONETISATION: A HISTORICAL OVERVIEW

Varun .N. Amin

Institute of Management, Nirma University

### KEYWORDS :

#### INTRODUCTION-

One of the most recent phenomenon which is widely discussed among one and all is Demonetisation. Whether government did the right thing by going for demonetization, whether timing of this step is appropriate, How far the objectives of Demonetisation have been achieved in our country. There are many who oppose the steps taken by government especially the opposition parties. Government agencies are trying to convince the common man the move was appropriate.

The present paper tries to explore the history behind demonetisation in India and other countries. How demonetisation has impacted the economy of the country which has implemented it

#### WHAT IS DEMONETISATION-

Demonetization is the demonstration of Banning/reclaiming of a money unit of its status as legitimate delicate. Demonetization is important at whatever point there is a change of national money. The old unit of cash must be resigned and supplemented with another money unit. [1]

#### HISTORY OF DEMONETISATION IN INDIA:

To start with Demonetisation — 12 Jan 1946 (Source: RBI History 1935-51, pg 706)

Taking after the activity in a few outside nations, including France, Belgium and the U.K., the Government of India settled on demonetisation of high group notes, in January 1946. It is fascinating that as ahead of schedule as April 7, 1945, recommended comparable activity in India as 'one more solid case for the Indian Government to follow in its battle against underground market cash and tax avoidances which have now accepted colossal extents.

Second Demonetisation — 16 Jan 1978 (Source: RBI History 1967-81, RBI Balance Sheet, RBI Currency and Finance Report)

On 16 Jan 1978, the law was reported through All India Radio at 9 AM. The Ordinance gave that all banks and government treasuries would be shut on 17 January 1978 for exchange of 'all business with the exception of the planning and presentation or the receipt of profits' that were should have been finished with regards to demonetization. This time open was given much lesser time of 3 days to trade Rs 1000, Rs 5000 and Rs 10000 notes.[2]

#### MOST RECENT DEMONETISATION IN INDIA:

The demonetisation of 500 and 1,000 banknotes was an approach sanctioned by the Government of India on eighth November 2016. Every one of the 500 and 1,000 banknotes of the Mahatma Gandhi arrangement stopped to be lawful delicate in India from ninth November 2016. [3] In the declaration, Modi pronounced that utilization of every one of the 500 and 1,000 banknotes of the Mahatma Gandhi Series would be invalid from midnight of that day and reported the issuance of new 500 and 2,000 banknotes of the Mahatma Gandhi New arrangement in return for the old banknotes. Be that as it may, the certified receipt divisions of 100,50,20,10 and 5 of the Mahatma Gandhi Series stayed legitimate delicate and were unaffected by the policy.[4]

#### THE POSITIVE LARGE SCALE ADVANTAGES OF THIS MOVE BY THE GOVERNMENT:

This move by the administration is probably going to have long haul benefits for the economy. The dousing of the real extent of unaccounted cash would diminish from the liabilities of the administration and would add to its accounts. This would imply that while loan fees can be low, the administration spending on substantial

foundation activities would kickstart capex cycle and push monetary development higher in the medium term. The move is likewise prone to have a propensity changing effect in the Indian crowded and there could be expanded conviction of keeping trade out the banks as opposed to reserved at home and utilize formal managing an account channels for their spending needs. Likewise with more cash being kept in the saving money channel, some of these ease stores might be sticky and enhance the medium to long haul Current Account and Savings Account (CASA) proportion of the banks. Another component of the demonetization would be lessening in trade exchanges out land. This is probably going to lessen to land costs and make it moderate to some degree. This might be obvious more in the provincial belt, where numerous non-cultivating elements buy prolific farmland, not for cultivating but rather for cash stopping reason.

The demonetisation and subsequent decrease in shadow economy would bring the interest for such ranch arrives down. This move is probably going to prompt to better assessment consistence, raise the Tax to GDP proportion and enhanced expense accumulation. Additionally with lower trade exchanges out the close term, swelling may see downtrend in the close term. Likewise with higher assessment to GDP proportion, the administration may likewise get enough headroom to diminish the wage impose rates, which can prompt to higher discretionary cashflow with individuals and can enhance utilization request in the medium to long term.[5] Agriculture is relied upon to minimum affected with real stun being caught up in the initial 2-3 weeks itself as there have been issues in deals at mind is because of the money crunch directly. [6]

#### Method of installment and spending conduct

Tokunaga, Howard (1993) expressed that there is developing writing that focuses out to the likelihood of changes in spending conduct therefore of moving to instruments other than money. There are many substitutes for trade out the cutting edge economy extending from checks, charge cards, prepaid cards, Visas and versatile wallets. At the point when contrasted with money, these instruments vary in various key attributes. Fleeting partition or level of coupling is the degree to which a buy and the installment for the exchange from assets are isolated in time. On the off chance that the two are de-coupled, individuals may not see a feeling of division from cash at the season of bringing about the consumption and thus may overspend. The second trademark is identified with the agony of installment spilling out of striking nature. It is contended that individuals see the torment of installment relying upon the substance or remarkable quality of the surge. Prelec, D., and G. Lowenstein. 1998 expressed a third element is the stringency of spending requirement – while money constrains one's capacity to spend to the measure of trade out hand, a charge card extends it to the equalizations accessible in the record and a Visa additionally unwinds it to incorporate future profit too. Soman, D. (2001)

#### Different option Instruments accordingly of Demonitisation

We condense the consequences of some of these reviews which look at the conduct of shoppers utilizing elective instruments as takes after:

- In an examination of check cards with money, thinks about recommend that with the utilization of platinum cards, the level of utilization has a tendency to be higher. Soetevent, A.R. (2011).
- In an examination of charge cards with money, this impact is more proclaimed. Prelecet. al (2001)
- Visas regularly are connected with all the more spending bringing about an expansion under water too. Lee et.al (2007) d. Advance, going through with cards appears to energize spending on superfluous items.

(Newsworldindia 2016) expressed that India is not an outsider to demonetisation as Prime Minister Narendra Modi as of late denoted the third time in history that cash notes have been demonetised in India. Be that as it may, the late money boycott of Rs 500 and Rs 1000 notes is the greatest money boycott in India's history, making more than 80 percent of hard trade out course adequately useless.

As the nation conforms to the new money standards, here is a rundown of different nations that endeavored demonetisation, in some cases with not all that fruitful outcomes.

#### Soviet Union

In January 1991 under the administration of Mikhail Gorbachev the nation pulled back 50 and 100 ruble notes from flow trying to evacuate dark cash and increment the money esteem. The evacuated notes conformed to 33% of the aggregate cash available for use.

The extensive scale demonetisation was not fruitful and Gorbachev confronted an overthrow simply months after the fact in August, however the 1991 endeavor prompted to an effective redenomination of the ruble in 1998 where 3 zeros were expelled, which was trailed by another cash switch in 2010 when 2 more zeros were expelled from the old money. The 2010 endeavor was not as effective as the planning agreed with a poor collect.

#### Zaire

In the mid 1990s, the Dictator Mobutu Sese Seko organization took off progressive cash changes alongside an arrangement to pull back out of

date money from the framework in 1993. The progressive changes brought about expanding financial disturbances until Mobutu was removed in 1997.

#### Myanmar

The military nullified almost 80 percent of the estimation of cash available for use in 1987, trying to control the bootleg market. The activity set off the principal understudy showing in years, before an administration crackdown came into influence the following year.

#### Ghana

In 1982, the nation demonetised its 50 cedi money note to diminish tax avoidance, address debasement and clear abundance liquidity, however the move brought about the general population swinging to remote cash and physical resources. The overall population lost trust in the saving money framework and a new bootleg market for cash started.

#### Nigeria

Military government drove by Muhammadu Buhari directed an against debasement crackdown in 1984, issuing new money notes with new hues so old notes would be rendered unusable inside a constrained time span. The objective had been to settle an obligation ridden and expanded economy however was not effective.

The following table give an insight about the countries who adopted demonetization in the past and their GDP.

Sr. No.	Country Name	Year	GDP of last 5 years	GDP Annual Growth Rate	Inflation	GDP Per capita	Consumer Price Index
1	Britain	1990, 1993 and 1998	1093 (US Billion-1990) 1142 (US Billion – 1992) 1140 (US Billion – 1994) 1392 (US Billion – 1996) 1600 (US Billion – 1998)	1.8 % -0.90 % 2.93 % 2.20 % 3.98 %	810 % 943 % 802 % 95 % 9 %	27013 USD 26652 USD 28242 USD 29534 USD 30379 USD	54 Index point 62 Index point 65 Index point 67 Index point 71 Index point
2	Russia	1998	435 (US Billion-1993) 395 (US Billion – 1994) 396 (US Billion – 1995) 391 (US Billion – 1996) 405 (US Billion – 1997)	-2.2 % -3.4 % -5.5 % -3.1 % -0.4 %	810 % 943 % 802 % 95 % 9 %	15274 USD 13370 USD 12813 USD 12370 USD 12564 USD	2 Index points 6 Index point 15 Index point 28 Index point 34 Index point
3	Zimbabwe	2006, 2008 and 2009	5.44 (US Billion – 2006) 5.29 (US Billion – 2007) 4.42 (US Billion – 2008) 8.16 (US Billion – 2009)	-3.5 % -3.3 % -5.5 % -9.9 % 5.3 %	-10 % -12 % -9 % -8 % -7.5 %	1579 USD 1501 USD 1218 USD 1270 USD 1234 USD	134 Index points 123 Index points 112 Index points 98 Index points 87 Index points

Table: Countries Who Adopted Demonetization in the Past

## CONCLUSION

The above discussion gives an insight about the concept of Demonetisation, its impact in India and countries that adopted demonetization before India. Yet it is very early to judge whether demonetization has proved to be fruitful or not to the Indian economy.

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