

DEMONETIZATION IN INDIA: REASONS AND IMPACT**D.S. Jana, A.E. Khedkar and C.E. Khedkar**Dr D Y Patil School of Management, Lohegaon, Pune
debashree.aims@gmail.com**ABSTRACT**

Demonetization means the process wherein a country's currency no longer remains a legal tender. It is replaced with a new currency. The reasons of demonetization are hyperinflation, checking the criminal activities and setting up of a new currency standard. The advantages of demonetization are – it helps check terrorism and counterfeiting of currency, it helps reduce tax evasion and it promotes cashless economy. The certain disadvantages are the cost of printing new currency and a possible chaos among people. In India's case, the demonetization led to shortages of currency, impact on the economic activity and lowering of GDP growth. As such, the jury is still out on whether the demonetization decision was the right one.

Keywords: *Demonetization, currency, counterfeiting, black economy*

Introduction

Demonetization is a process wherein a country's currency no longer remains a legal tender. The currency unit is the physical money, such as notes and coins. When demonetization happens, the country's currency unit becomes worthless, and it cannot be used to purchase goods and services.

Demonetization is a kind of economical intervention, wherein a nation moves to exchange one type of currency with another. During the beginning of demonetization, the old currency is discontinued and is replaced with new type of money. During the demonetization process, people are given some time to change their notes and coins for with the new currency before the old is discontinued. Once the currency is discontinued, it no longer remains a legal tender and has no monetary value (Corporate Finance Institute, 2021).

Reasons of demonetization

Despite the fact that demonetization is uncommon, nations all throughout the planet have conducted demonetization measures for different reasons.

- 1) Governments may decide to go through demonetization if the currency gets out of control, because of problems like hyperinflation.
- 2) Demonetization can likewise be utilized to check criminal actions, for example, counterfeiting, terrorism, or tax evasion.
- 3) In other cases, demonetization happens to execute a new currency standard. For instance,

in 2002, the EU introduced the Euro, a central currency which would replace the existing monetary standards of a few nations.

Literature Review

There is ample research on the topic of Demonetization in India. Below are a few abstracts from the recent literature.

Kurosaki (2019), has posited that, utilizing a panel dataset gathered in 2014–2017, we look at small and micro entrepreneurs in Delhi, India, recognizing registered (more formal) and unregistered (more informal) enterprises. The dataset contains not just information on the characteristics of entrepreneurs and firms, yet in addition General Social Survey trust information. Quantitative analysis looking at the two sorts of entrepreneurs uncovers that their social backgrounds and trust were significant, and that the thing that matters is correlated with firm performance. In the micro and small undertaking area in Delhi, registered and unregistered firms coincide with various types of superiority, however the transactions of the two sorts of firms remain highly cash dependent even after the 2016 Demonetization shock.

Choudhary (2020), has argued that, the government had executed a significant change in the economic environment by demonetizing the high-value currency notes – of Rs 500 and Rs 1000 denomination. These stopped to be legal tender from the 12 PM of eighth of November 2016. Individuals were offered up to December 30, 2016, to exchange the notes held by them. The proposition by the govt. involves

the elimination of the existing currency notes from circulation & a gradual replacement with another set of notes. Temporarily, it is expected that the cash in circulation will be significantly squeezed since there are limits put on the sum that individuals can withdraw. The objectives for demonetization are: one, to check counterfeit notes which could be helping terrorism, in other words, a concern of national security and second, to moderate or eliminate the "black economy".

Chand and Srivastava (2019), have opined that, on eighth November, 2016 Indian PM Mr. Narendra Modi reported in broadcast to the nation that Rs. 500 and Rs.1000 currency notes will not be perceived legally as currency; this is known as Demonetization. The high denomination currency notes make about 85% of the total cash circulated in India. In the declaration, PM Narendra Modi proclaimed that utilization of each of the 500 and 1,000 banknotes would be invalid after 12 PM of that day, and reported the issuance of new 500 and 2,000 banknotes of the New Series in exchange for the old banknotes. This action has been taken by PM to deal with the problem of corruption, black money and counterfeit notes. Demonetization promptly affected the condition of the Indian economy. This paper makes an endeavor to do a top to bottom analysis of the effect of Demonetization and additionally portrayed the impact of demonetization on different sectors of the economy.

According to Adil and Hatekar (2020), this article tries to advance contextualized understanding of the degree to which a cashless economy in India can be a feasible developmental goal. Initially, dazzled with studies of the abrupt 'demonetization' on 8 November 2016, we led econometric research to test how banks could be carried nearer to rural people. However, this customary methodology of envisaging more banks was quickly overwhelmed by the huge take-up of digital payment methods in India since 2016.

According to Mandala and Mohanty (2019), on November 8, 2016 night at 8 pm, the Indian money Rs 500 and Rs 1000 note had been demonetized. Demonetization suggests pulling back or hauling out of a particular kind of money from flow. An unexpected move made

by the prime minister has impacted cash part of India. In thin sense, it has influenced the growth rate of the economy. It influences customer purchasing conduct and other populace family unit and furthermore on online business. As we understand that due to this movement, India faces a particularly huge number of issues. So, it is important to examine the impact of demonetization on economy. Notwithstanding, the Prime Minister gives accentuations on business mode using internet and advances it. Along these lines, the principal point of the examination is to understand the positive and adverse viewpoint on economy and on people in general after the demonetization.

Moreover, Verma et al. (2020), Khalid and Ismail (2019), Tewari and Sharma (2019), Singh and Goyal (2020) have written about the impact of demonetization in India.

Benefits of Demonetization

Through the demonetization of currency, a nation can get advantages ranging from prevention of crime to greater currency standardization.

1. Lessens different criminal activities

One of the advantages of demonetization is the reduction of different forms of criminal movement. As per the demonetization process, old coins and banknotes are discontinued and removed from circulation, and viably become worthless. For those conducting criminal activities, like terrorism, their inventory of money successfully gets worthless, as the currency is not, at this point legal tender.

For those occupied with counterfeiting, the banks will assess if old currency notes are counterfeit prior to exchanging them, thus allowing the govt. to reduce counterfeit currency notes from the circulation.

2. Prevents tax evasion

Demonetization of currency can likewise forestall tax evasion, as those that are evading taxes should exchange their existing currency or hazard their money becoming worthless. In the currency exchange process, the government can get the individuals who have not paid taxes and retroactively tax their unreported income.

3. Advances a cashless economy

Demonetization can similarly further the push towards a cash-less economy, as the govt. can

moderate the circulation of actual currency and move towards more digital options.

Disadvantages of Demonetization

On the other hand, a few inconveniences can emerge from the demonetization process, including:

1. Incurs costs from minting of coins and printing new banknotes

One of the first drawbacks is the expenses involved with the minting of coins and the printing of new banknotes.

2. May not completely eliminate criminal activity

In addition, demonetization may not completely eliminate the criminal activity, as criminals might keep their resources in other forms, like gold or real estate.

3. Can result in chaos among citizens

Lastly, if the demonetization process isn't carried out effectively, it can bring about chaos among the people, as they scramble to exchange their currency before it is discontinued.

Examples of demonetization

1. India (2016)

A recent example of demonetization was the case of India in 2016, when the govt. declared the discontinuation of all Rs. 500 and Rs. 1,000 banknotes. It was done to lower the presence of counterfeit cash to support criminal activity.

At the point when the demonetization was declared, there were shortages of cash the nation over, as people scrambled to exchange their existing banknotes. It prompted disruptions to the economy, reducing India's industrial production and hindering its GDP growth rate.

2. Eurozone (2002)

Another illustration of demonetization was the case of EU transition to the Euro in 2002. To

work with the process, the European Central Bank expected to guarantee that there was sufficient currency to be circulated and started printing banknotes and minting coins as ahead of schedule as 1998.

At the point when the euro was introduced, the central bank guaranteed that all citizens had the option to admittance to the new currency and started providing banks with the new banknotes and coins a while in advance.

Conclusion

Demonetization is a process wherein a country's currency no longer remains a legal tender. It is replaced with a new currency. There are several reasons for demonetization. First, it can replace the currency in situation such as hyperinflation. Second, it can reduce criminal activities such as terrorism, tax evasion and counterfeiting. Third, it helps in setting a new currency standard.

There are various advantages of demonetization. First, it helps reduce criminal activities such as terrorism. It renders the cash available with terrorist useless. Second it helps reduce tax evasion. The government can choose to go after people who have large currency deposits and check if the income is undeclared. Third, it also helps towards becoming a cashless economy as it promotes digital transactions. That said, there are certain disadvantages of demonetization, such as – cost of printing new currency notes and it can lead to chaos in the public.

In India's case demonetization led to great difficulty for public to replace their currency due to shortages. Moreover, it caused disruption to the economic activity and lowered the GDP growth rate. As such, jury is still out on whether the demonetization decision was right.

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