Demonetization: Review After a Decade of Its Implementation

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***Abstract*—Demonetization of currency is a radical monetary step in which a currency unit's status as legal tender is declared invalid. The currency in use presently will be withdraw from the circulation. But the withdrawal of currency has both positive and adverse impact on the economy. On November 8, 2016, prime Minister Mr. Narendra Modi in his address to the nation on announced the demonetization of 500 and 1,000 as legal tender. The demonetization announcement made the use of Rs. 500 and Rs. 1,000 banknotes invalid past midnight of November 8. The present study is to make an effort to understand the of demonetization, its objectives and impact on the economy.**

***Index Terms*—Demonetization, currency, withdrawal, Economy. Impact etc.**

I. INTRODUCTION

Demonetization, wherever or wherever it is done, has an unsettling impact on the daily life a nation. But the process of demonetization facilitated the process of shifting economy from cash-based to digital. Digital transaction got accelerated the economy's digital payments reducing the accumulation of black money and yielded maximum long-term benefits to the economy. The objective of demonetization as claimed by Government of India was a curtail the black money running as shadow economy and to stop the use of counterfeit cash to fund illegal activity and terrorism. The sudden nature of the announcement—and the prolonged cash shortages in the weeks that followed—created significant disruption throughout the economy, threatening economic output. The demonetization move was heavily criticized as poorly planned and unfair, and was met with protests, litigation, and strikes. A lot has been said about the implementation of this demonetization followed by monetization exercise, and many prescriptions have been written or discussed around the table. Since the fundamental goal was to target the black money, there was no alternate to the element of surprise. The slightest of hint, in any form, would have resulted in a flight of black money to safe heavens only to reappear once things settled down.

II. DEFINITION OF 'DEMONETIZATION'

It refers to an economic policy where a certain currency unit ceases to be recognized
Or used as a form of legal tender. In other words, a currency unit still loses its legal tender status as a new one comes into circulation. India's demonetization means that it is stripping a currency unit of its status as legal tender, necessary whenever is a change of change of national currency.
When a currency note of a particular demonetization ceases to be a legal tender, it is termed as demonetization. Legal tender refers to money which can be legally used to make payments of debts or other obligations.

Understanding of Demonetization:
Government withdraws the higher value currencies for the circulation to achieve certain objectives. The announcement was sudden and unscheduled. It was a live television address at 8PM on November 8, 2016. In the days following the demonetization, the country faced severe cash shortage with severe detrimental effects across the economy. People seeking to exchange their bank notes had to stand in lengthy queues, and several deaths were linked to the inconveniences caused due to the rush to exchange cash, As the cash shortages grew in the weeks following the moves. The demonetization was heavily criticized by prominent economists and by world media. Demonetization whenever or whenever it is done, brings about an unsettling impact on the daily

life a nation. I would like to make a basic difference between withdrawal and demonetization of a currency, through the words may appear to mean similar. Withdrawal of a currency is a regular exercise done by most central banks gradually over a period of time where the objective is to introduce newer legal tender in place of older ones. In this case it is life and business as usual the paper simply gets changed over a prescribed period of time. In the case of demonetization, it has to be an abrupt stopping of currency and re-monetizing with newly issued with newly issued legal tender. In this exchange process there is an inbuilt accounting. What gets left behind is the black money which automatically be expunged from circulation.

The term demonetization is not new to the Indian economy. The highest denomination notes ever printed by the Reserve Bank of India was the 10000 rupees note in 1938 and again in 1954. It was demonetized first in 9146 and then in 1978. Since not many people had access to such notes at that time, this did not have a big impact on the country. The latest round of demonetization of 2016 has undoubtedly affected the common public and bankers.

Review of Demonetization

Demonetization slowed down the economy, reduced the liquidity in the market because of which small enterprises, entrepreneurs struggled largely. But the historical move of demonetization helped to reduce black money and fund flow to the anti-social activities including activities related terrorism. to It has had many short-term effects which are visible but this effect was only for a short period, as economy moved further in the process of development the impact of demonetization disappeared. Economy started getting adjusted with the cooperation of public and financial institution.

Effects of demonetization is briefly discussed as following

The decision of demonetization has helped Indian economy to effectively manage the few activities like eradication of black money and facing the challenges of reducing the cash flow to terrorism and also shifting economy from case based to digital transactions. Still the historic decision impacted the entire economy which cannot be ignored, the same is discussed briefly below,

III. ON GROSS DOMESTIC PRODUCT (GDP):

The Indian economy is a cash –driven economy and demonetization have largely affected the growth. The GDP growth rate of 8.01% fell to 7.11% in 2016-17 after demonetization. This was largely due to less availability of cash in cash-based industries like manufacturing and construction. It has also adversely impacted the primary function of banks to issue loans and has put pressure on them as current account holders demand large sums of cash.

On Daily Wage Worker:

A major portion of the Indian workforce is the part of the informal economy. They use cash to meet all their expenses and demonetization the resulted in a lot of them losing their job due to unavailability of cash. According to CIME's Consumer Pyramids Household Surveys (CPHS), approximately 1.5 million jobs were lost during the final quarter of the financial year 2016-17. The estimated employment during this period was 405 million as compared to 405.6 million during the previous four months.

On Small Scale Industries:

Business like the textile industry, salons, restaurants, and seasonal businesses are low capital enterprises and work on the basis of liquidity preference. Demonetization gravely impacted their revenue collection and threatened their existence to an extent.

On Black Money:

Though only a small portion of black money is stored in the form of the cash and majority is in the form of physical assets like gold, land and building, demonetization of the rupee 500 and 1000 notes might take out a lot of black money from the economy.

On The General Economic situation:

Till months after demonetization the general economic situation was disturbed. The public had to queue up outside bank to exchange their old currency for few once. Household lacked liquidity and could not do transaction for daily items. Small shopkeepers who only accepted cash went into losses and some even shot down.

One inflation

The Reserve Bank of India (RBI) consider wholescale price index (WPI) and the consumer price index (CPI) to measure inflation. Demonetization is expected to reduce inflation as consumer have a cut down on spending and aggregate demand as considerably fallen.

On terror founding:
Demonetization was aimed as a clean-up of the economy where Fake Indian Currency Note (FICE) would be checked. It is aimed at rendering all fake notes of rupees 500 and 1000 useless and thus drastically affecting illegal funding of terror groups in Jammu and Kashmir, states in the North-East, and Naxalism-influenced states.

On Political Parties:
Many Political Parties use large amounts of undeclared cash on campaign for elections and meet other requirement. Due to Demonetization such acts might get restricted to an extent and parties will have to formulate new strategies.

IV. TOWARDS A DIGITAL ECONOMY

Absence of liquid cash has led to people market transaction using cheques or account transfer. They have also switched to virtual wallets like Paytm which allows electronic transfer of money. All this result in a digital economy where transactions are being recorded and the economy has more white money. This might increase the government's tax revenue.

Advantage of Demonetization:
Though demonetization had adverse impact on the economy it has created some positive changes also. Following are some of the advantages.

Rate of Inflation goes down:
Price of commonly consumed commodities like pulses, fruits, vegetables had gone down substantially post demonetization. Accordingly, it brought down the rate of inflation during the months that followed demonetization. The chart below represents the impact of demonetization on the commodities

Indian moves to cashless economy:
One of the key effects the demonetization 2016 has been that more people have made digital payments part of their lives moving towards to cashless economy. The details of growth of such digital transactions since January 2016 to August 2017 reflect that NEFT transaction have increased.

Banks' lending increases for small businesses
Banks' finance to small business was going down in pre-demonetization period. But after demonetization banks' finance has gone up.

V. CONCLUSION

Demonetization hit hard both organized and unorganized sector in the economy accelerated digital transitions in the nations which facilitated the shift of economy from cash based to digital. But Mr. ManaMohan Singh felt that central statistical office (CSO) failed to analyze the adverse impact that demonetization created on the unorganized sector of the economy. According to him" demonetization was an unnecessary venture which pushed the economy backward.

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