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## **An overview on demonetisation of Indian currency 2016-17**

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### **Abstract**

Demonetisation is an economic term which is used to mean the 'scrapping' of old currency notes and stripping them off their status of legal tender, usually when a new currency note or currency is introduced in the economy of the country. The decision scrapped the legal tender status of the high value currency notes of INR 500 and 1000 with immediate effect and introduced new Rs. 500 and Rs. 2000 notes. The immediate effect of the announcement saw countrymen lining up at the ATMs to withdraw 100 rupee notes to tide over the impending cash crunch. The primary aim of demonetisation is reasonable enough, the government hopes, to improve the functioning of the economy and boost its tax take by cracking down on the shadow economy. Demonetisation also increases use of electronic bank-based payment systems, which will make record-keeping easier more common, allowing government better to track and tax the proceeds. The government are taking all possible steps through commercial banks to overcome all the financial impediments. They also take steps to train more citizens towards the use of digital banking in the process of propagating cashless transactions.

**Keywords:** Demonetisation, currency, electronic banking, cashless transaction

### **Introduction**

Demonetisation is an economic term which is used to mean the 'scrapping' of old currency notes and stripping them off their status of legal tender, usually when a new currency note or currency is introduced in the economy of the country. This is a standard practice followed by all major economies of the world for different reasons. For instance, when the 'Euro' was introduced as the common currency of the European Union, the participating countries had effectively followed a 'demonetization' drive of their respective currencies by fixing exchange rates for the old currency to the newly introduced Euro. Indian Rupee had been demonetized at various times as well. The Rs. 10,000 notes were demonetized once in January 1946 and then again in January 1978. Recently, the Rs. 500 and Rs. 1000 notes were demonetized in a surprise move on November 8, 2016.

The recent scrapping of Indian 500 and 1000 rupee currency notes has pushed the entire country in a whirlpool of confusion. The country may be happy about the initiative or upset with the move, but the word 'demonetisation' has recently become trying to the buzz word.

Before we explain demonetisation let us understand that a currency note or paper currency is essentially a promissory note or a legal document where the promise the holder for the amount mention. The same is printed on every currency note as well. This is validated by the heads of the Central Banks of the nation and in case of India, by the Governor of Reserve Bank of India. This "status" of legal tender can be scrapped for a currency note, which means that the instrument ceases to be a "legal" mode of monetary transactions and in effect loses the value associated with that instrument.

### **Demonetization of Indian Rs.500 and Rs.1000 Notes (When and How)**

In a surprise move, the Indian Prime Minister, Shri Narendra Modi in his address to the nation on November 8, 2016 declared the demonetization of the Indian Rs. 500 and Rs. 1000 currency notes with effect from midnight of November 8. This move sent the entire nation shock. The Hon'ble Prime Minister stated that the decision is taken as a step to counter terrorism which was being funded by counterfeit money as well as a decisive strike against the black money being hoarded by a section of the citizens of the country. The decision scrapped the legal tender status of the high value currency notes of INR 500 and 1000 with

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immediate effect and introduced new Rs. 500 and Rs. 2000 notes. After the address, the Economic Affairs Secretary, Mr. Shaktikanta Das further explained the method and means by which the old currency notes would be exchanged for new notes. It was further assessed that people should not worry about their money as demonetisation does not mean that their money has no value. All it means is that it must be exchanged for the new notes. As per the notification, barring some public utilities like petrol pumps, hospitals, railways and airports as well as cremation and burial grounds, the use of old 500 and 1000 rupee note was discontinued. To effectively carry out the exchange of old currency and the ATMs across the nation, banks were closed for two days. The government also imposed a limit of withdrawals from ATMs as Rs. 2000 per card and from banks as Rs. 10,000 per account per day and Rs. 20,000 withdrawals per week. The limits were later revised as Rs. 2500 for ATM withdrawals per day and Rs. 24,000 for bank withdrawals per account per week. The use of old currency notes were also extended for use at Delhi Metro recharge counters as well as for payment of property taxes and electricity bills. The government allowed to exchange the old currency notes upto December 30, 2016. After the date, the exchange of the old currency notes would only be possible at designated counters of RBI after submitting a declaration form prescribed for the purpose.

#### **Effects of Demonetisation of Indian Currency**

The move of the modi government received both praises and severe criticisms from every section of the society. The immediate effect of the announcement saw countrymen lining up at the ATMs to withdraw 100 rupee notes to tide over the impending cash crunch. As per figures provided by the RBI, the banned currency constituted 86 percent of the currency in circulation in the country. Replacing the entire magnitude of the money is a mammoth task and the pinch was felt by everyone in the immediate aftermath. When the banks and ATMs opened long queues of citizens lined up to exchange, withdraw and deposit the old currency notes. Reports were received from various parts of the country about chaos regarding the failure of banks in providing the essential services. The government has released further measures and actions to make this situation as convenient to the common man as possible. The income tax department and the ministry of finance has issued notifications and clarified that, since ample chance has been given to the citizens to declare their income by September 30 under the voluntary disclosure schemes, no further concessions would be given to the people for depositing large amounts in their accounts and all such large transactions would attract tax scrutiny and penalty as per the law. As the drive to exchange the old currency notes continue, measures are being put in place to make the transition as smooth as possible. However, it can be judged that the sheer quantum of the money that needs to be exchanged (given the population and the amount of notes already in circulation) makes this a logistical judgement and would continue to cause discomfort. The government and RBI are constantly working towards making this as comfortable as possible. Some of the measures include increasing the limits of withdrawals and scrapping toll on national highways till November 18, midnight.

#### **The consequences of India's demonetisation initiative**

On November 8th India's Prime Minister, announced a course of action just as described above. He declared that all

500- and 1,000-rupee notes—making up 86% of the cash in circulation in India—could no longer be used for the exchange.

Unlike most currency reforms, designed to boost confidence in the currency. The present act of demonetisation is different. The primary aim of demonetisation is reasonable enough, the government hopes, to improve the functioning of the economy and boost its tax take by cracking down on the shadow economy. Demonetisation also increases use of electronic and bank-based payment systems, which will make record-keeping easier and more common, allowing government better to track and tax the proceeds.

The Reserve Bank of India taken steps to create new currency and transfer that money to the government to spend. Some economists hope the money will be recycled back into the economy through a fiscal stimulus, which might help soothe some of the pain caused by demonetisation.

#### **The other rupee drops**

Demonetisation will make strides in shrinking the black economy. But the hasty introduction has affected majority of the citizens of the India as they could not get currency for their daily consumption. In much of the Indian economy, and especially outside big cities, where cash transactions are most common and financial infrastructure least developed, the sudden invalidation of a vast amount of outstanding currency represents a significant monetary shock. The new Rs.500 notes could have been released along the Rs.2000 notes and this would have placed much less strain on those of the Rs.100 denomination, which are anyway in short supply. Second, it appears that officials woke up a little late to the issue of recalibrating ATMs. At least a day, if not more, was lost as banks realised the ATMs would not be able to dispense the new notes. The communication with the public, who were in a state of panic, could have been better, too. Thankfully, the Centre has woken up to ease the pressure on the system by increasing withdrawal limits, allowing for petroleum outlets and hospitals to accept the old series of notes until November 24 and pushing more cash through post offices. The worst-affected are people in rural areas and villages where cash is king and the banking system's penetration is poor. The decision to relax cash-holding limits for Business correspondents, the crucial link between banks and villages, to Rs.50000 and allowing them to replenish multiple times a day should help in faster distribution. This ought to have been done much earlier. The cash crunch of the last two months is certain to have an adverse impact on consumption spending, especially in the rural areas. The clarification comes in the wake of reports that the banks have received deposits close to Rs 15 lakh crore, of estimated Rs 15.4 lakh crore worth junked currency notes that were in circulation, from the 50-day demonetisation exercise. RBI report citing sources said between Rs 14.5 lakh crore and Rs 15 lakh crore may have come back into the banking system and RBI is still doing reconciliation and cross-checking. When asked if about Rs 15 lakh crore has come to the system till December 30, Both the government and the RBI have not come out with the official statement on how much have been deposited in various banks at the end December 30, the last date for depositing and exchange of junked Rs 500/1000 notes.

The last official number on this was only till December 10 when RBI said that the old notes of Rs 500 and Rs 1,000,

which have been returned to the central bank and the currency chest, amounted to Rs 12.44 lakh crore. On the last day of demonetisation, RBI had asked all banks including cooperatives to report details of deposits of old Rs 500/1,000 notes to it after the close of banking hours. Indians who were abroad during November 9 to December 30 have been given a three-month grace period till March 31 to deposit the junked notes, while for the NRIs, it is six months till June 30. While there is no limit on deposit of defunct notes by an Indian national who was abroad when the 50-day window was in operation, NRIs can deposit only Rs 25,000 as per FEMA law restrictions. Demonetisation process is like a two faces of a coin because one side it will benefit the nation and other side it's going to create some temporary and long term problems.

**Benefits**

1. Possible to stop counterfeit currency using for the terrorism activity.
2. Black money: by demonetisation of higher currency suddenly it will take out illegally stored money from the holders.
3. Transparency: moving towards digital economy may bring the transparency in the system.
4. Easy monitoring: Digital payment easy to monitor cash flow.
5. Less chance of avoiding the taxes.
6. Transparency in the system will bring more invest from the foreign countries.

**Drawbacks**

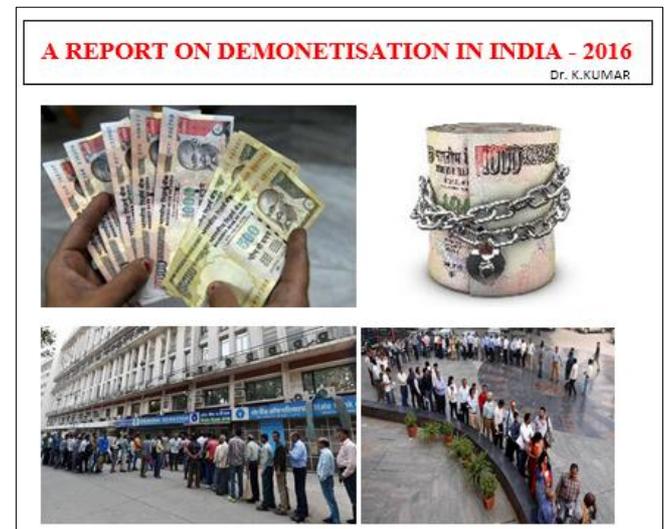
1. Losses to small vendors trade because of cash crunch (violation of article 19 of the Indian constitution)
2. Many people died because some hospitals not accepted old money and rejected treat them.
3. Repeatedly changes in the rules and misleading to the people
4. Many people do not have bank accounts in rural areas and hilly areas.
5. Lots of daily basis labours removed from the work
6. Violation of article 14( between holders and non-holders)

In order to bring more transparency and accountability in the system it's necessary to go with digital economy, but we can't fully depends on digital economy we need some percentage of money for daily uses.

**Conclusion**

In this article an attempt is made to understand the "demonetisation -2016 in India". The objectives of demonetisation have been stated as published by the Government. In this process of exchange of old currency by new currency, the government had announced various steps and implemented through commercial banks, Government institutions and essential service outlets like hospitals, petrol pumps , etc. However, the short supply of new currency notes and inadequate stock of notes of small denominations including Rs, 100 rupee notes, has created chaos among people at large. The achievements on the objectives of the government, such as, arresting the supply of financial help to the terrorist, detecting the Roar ding of currency by tax evaders, presenting the corruption. etc. Are expected shortly after the end of financial year (31<sup>st</sup> March). RBI and the

government are taking all possible steps through commercial banks to overcome all the financial impediments. They also take steps to train more citizens towards the use of digital banking in the process of propagating cashless transactions. Time will state the pros and covers of demonetisation 2016. Let us hope to experience more possible results.



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