



ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 5.2
IJAR 2017; 3(2): 04-08
www.allresearchjournal.com
Received: 02-12-2016
Accepted: 30-01-2017

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Demonetization at glance in Indian scenario: A conceptual study

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Abstract

Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit. The Indian government moved as decided on November 8, 2016 to demonetize the two notes with biggest denomination i.e. Rupees 500 and 1000 which are in combine recorded with 86% participation in the total cash supply chain of the country. Attempts have been made through this paper to get an insight about the demonetization, various issues involved, measures adopted by the government to overcome from the demonetization affect. This paper is based on descriptive design with the involvement of secondary data. It has been concluded that no doubt, most of the sector has its impact but all the issue mentioned in paper stand for very short period to short period only and in long term, Indian economy will emerge as one of the strongest economy in the world resulting from our government move of demonetization. Some suggestions have been recommended at the end of the study to smother the way of demonetization and for treatment of issues resulting from demonetization.

Keywords: Demonetization, glance, currency, denomination, ATM's

Introduction

Demonetization "Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit." Remonetisation is quite opposite to demonetization in which a payment type is restored as legalised tender. Normally, there may be a lot of reasons behind the demonetization including to combat inflation, to depress a cash system and to overcome corruption.

Silver was demonetized to favour the adoption of gold standards according to the coinage act of 1873 as a legal tender of US (United States). Such withdrawal of silver resulting fall of money supply concluded towards 5 year economic depression nationwide. To overcome the situation as well as continuous opposition from farmers and silver miners, remonetisation was implemented in the form of Bland-Allison act through adoption of silver in 1878 as legal tender.

In 2002, European Monetary Union to switch over to Euro, at their first step fixed exchange rate to convert their home currency into Euro. Due to introduction of Euro, home currency was automatically demonetized while home currency conversion into Euro was allowed within a time frame.

To overcome the nation's giant inflation with a record level at 23,10,00,000 %, the government of Zimbabwe in 2015 opted for demonetization of Zimbabwean dollar. To have stabilization into the nation's economy, with a three month timeframe, Zimbabwean dollar was expunged and solidified into Botswana pula, US dollar and South African rand in the nation's financial system as a legal tender.

History of Major Demonetization in Indian Scenario

January 1946 demonetization move ^[2]: Two ordinances were issued by the government on January 12, 1946. The first one asked banks to share (provide) information about the currency holding in terms of notes with big denominations i.e. Rupees 500, 1000 and 10000. The second ordinance meant for public stated that notes with denomination of Rupees 500

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and above were going to be demonetized and exchange with Rupees 100 denomination note within a time limit upto January 23, 1946 and later extended while conditioned that individuals would have to make clarify why they couldn't exchange the in previous limited time frame. The outcome was almost a big failure since out of total notes issued having value Rupees 143.97 crore, the notes exchanged having value Rupees 134.9 crore.

January 1978 demonetization move ^[2]: The second major demonetization move in India got momentum on January 14, 1978 announced at 9 a.m. through All India Radio. The announcement stated that within a limited time frame of three days, people could exchange their high denomination notes i.e. Rupees 500, 1000 and 10000. This time, such demonetization was a futile exercise with no destroyed any money stock at all.

November 2016 demonetization move ^[3]: The Indian government moved as well as decided on November 8, 2016 to demonetize the two notes with biggest denomination i.e. Rupees 500 and 1000 which are in combine recorded with 86 % participation in the total cash supply chain of the country.

As announced by our Honourable Prime Minister Shri Narendra Modi on November 8, 2016 in a non-scheduled live televised address that the notes with denomination of Rupees 500 and 1000 having Mahatma Gandhi series would be treated as ceased after the midnight of November 8, 2016 and stated as well that the new currency notes of Rupees 500 and 1000 denomination with the new Mahatma Gandhi series will be issued as an exchange of old banknotes as legal tender. However, the government also clarified that the notes with denomination of Rupees 100, 50, 20, 10 and 5 having Mahatma Gandhi series as well as notes of Rupees 2 and 1 will remain legal and not influenced by the policy announced. The government also stated that the intention behind this move is to abolish counterfeiting of nation's existing currency which is an illegal source for funding terrorism as well as to overcome the black money. The other intention as clarified by the government behind this move includes effort to counterattack on corruption, drugs usage as well as smuggling.

This tragic demonetization move of existing central government got welcome support from international personalities as well as on behalf of many bankers at the initial level while enough criticized and even facing criticism by the parties in opposition at both houses in parliament. Some protests are also notified at some places in India against the demonetization move of the present government.

Review of Literature

Mukhrjee *et al.* (November 2016) ^[4]. studied about the impact of the present government move for demonetization on the credit availability, government finance, spending and levels of various activities. The researchers stated that in a very short period there would be more serious affect on persons earning income in cash as well as spending in cash while impact will be up to a lesser extent on those earnings in non-cash form but spending in cash. Each sector backing demand by cash along with the real sector especially the unorganized one will much adversely effected in very short run time. In case of short term effect having complete

replacement, an immense strengthening of informal sector credit market would be seen in the rural market and there would be adverse affect on construction sector. The medium term impact would produce results in terms of enhancements in deposits in the economy.

Mohd. (November 2016) ^[5]. studied about the significance as well as challenges of demonetization of currency notes. Secondary data was used for this study collected from various newspapers as well as websites. The researcher concluded through the study made that no doubt this move was going to disturb the routine life of 'Aam Aadmi' (common man of India) influencing largely the unorganized sector including organized sector up to a limited extent but the real consequences of move will have bigger implications on the Indian economy as a whole in the long run.

Sunita (September 2014) ^[6] in her research study attempted to get insight about the reasons as well as measures adopted by the government on demonetization that was implemented in Indian context. It was a conceptual study based on secondary sources. She concluded that the enhancing trade deficit, 1965's war between India and Pakistan, gulf war, political as well as economic stability, dwindling foreign exchange reserves, withdrawn of FII's (Foreign Institutional Investors) and strengthen of dollar were the key reasons behind the move for demonetization by the government in India and the measures adopted by the government included imposition of quantitative restrictions, provision for export subsidies, establishment of dual exchange regime, adoption of floating exchange rate system, increase in FII's limit, enhancement of ceiling up to a limited time frame, use of some proportion of borrowed funds overseas for the domestic expenditure, withdrawn of rebooking of forward contracts post cancellation and reduction of NOOPL (Net Overnight Open Position Limit).

Deodhar ^[7] in his research study visualized the concept of black money and demonetization including its form as well as the consequences and role of demonetization as a mechanism to get tackle on black money. At global level, the researcher found out that voluntary compliance played significant role than the enforcement. To have loyalty as well as trust in the tax system among your citizens was the basic priority to be focused on.⁸ It was also recommended to have a monitoring mechanism based on risk and the other key element was the coordination among education system and revenue department along with other things.⁹ The researcher also mentioned about some principles to tackle black money and those principles included removal of systematic pain leading to origination of black money at its very first place, enhance the cost for converting legitimate money into cash, systematic regulations making it easy for the participants involved in value chain to accept e-payments (electronic/online payments), implementation of mechanism to ensure safety of money for those who indulged in investing for finance black money friendly sectors, establish identity of persons as well as e-register of assets, creation of attribution chain meant for funds entering as well as exiting the country and creation of e-trails for both income as well as expenditure.

Research Methodology

Research methodology is the exact way to solve the research problem in a systematic as well as authentic way involving the procedure as well as tools adopted for the research. This paper is based on descriptive design with the involvement of

secondary data which has been compiled from newspapers, reports, research papers and websites as well. As this is a conceptual study so no statistical tools/techniques has been adopted.

Discussion

We will now discuss the reasons behind the favour as well as criticism by the Indian society, the possible outcomes as well as limitation of the policy and the ways to improve the existing chaos in the country resulting from the demonetization move.

(Demonetization at a glance)





(Source: www.google.co.in)^[10,11]

Problems/Issues due to demonetization

- Formation of long winding queues in front of each bank as well as ATM's from morning to evening.
- A considerable hue and cry from the public for getting their money exchanged.
- Little violation at some places by public.
- A few deaths were accounted resulted from stress of not getting money, ultimately due to demonetization of currency.
- Bank employees have to work for longer hours.
- People are unable to withdraw huge amount for the big occasions at their home.
- Swipe machines found to be not working properly at many places whatever may be the issue (i.e. personally observed in trade fair)
- Illiterate or less educated people are not so much aware about the cashless transactions.
- Lack of ATM's especially in rural areas creates big problem.
- In present time, there are still villages/areas which are unbanked even today resulting their routine work disturbed as they have to go to nearby villages or cities to get exchange their notes.
- Most of the cashless transactions are connected through internet which demand proper network that is still inadequate in some parts of India.
- Many illegal agents (Dalals) are emerged who are indulged in exchange of notes with a huge commission resulting in moral degradation.
- As some newspapers as well as news channels reported that back door policy on its way at some places in some banks with the involvement of some bank officials.
- Even some bank employees are found to be guilt indulging in conversion of 'black money' to 'white money'.
- Less educated or illiterate people may have to face security issues in case of providing information relevant to their financial instruments to get transactions done through others.

- Routine work of the people has got badly affected due to this movement of government.
- Overall, Indian economy has to suffer a lot due to lack of exchanged currency with the people.

Measures adopted by Government

A lot of measures have been adopted by the honourable government for smoothening the way of demonetization policy. Some of such measures are as follows:

- In a very short period, the government has issued a new denomination note of Rupees 2000 and after that the new note of existing denomination of Rupees 500 has been issued in a very short span of time.
- As stated by our honourable finance minister Shri Arun Jaitley, adequate money has been provided to bank with existing as well as new issued notes to overcome the demand from people.
- The government has well clarified that the old currency notes will be in operation at public services places such as hospitals, for railway and bus ticket payment, petrol pumps etc. for a limited period and even toll tax was completely removed for a small period to smoothen the transport.
- A limit on withdrawal of money has been imposed for a limited period whether it is through ATM's or banks so that every citizen could accomplish his/her basic requirements.
- Government is promoting the cashless transaction and in this direction, government has taken initiative with some incentives such as insurance, e-payment discount offer etc. and recently lucky winners for each week using e-payment.
- Central government as well as state government has made efforts to make their offices cashless that deal with public.
- The government has put its very big efforts through PMJDY (Pradhan Mantri Jan Dhan Yojana) accounts so that every citizen could be connected to banking

services and really this effort has been proving fruitful in the demonetization move.

- Security official has been provided as well as enhanced in each bank as well as ATM's wherever needed to avoid the violence.
- Government has fastened the process of making technical changes in the ATM's to fit it with the new notes.
- To overcome the commission agents as well as black money holders, security forces in civil as well as in dress and CID officials as well are on their way and results are impressive.

Shortcomings

The following shortcomings are still prevailing after the introduction of policy:

- The queues in banks as well as ATM's are not so much reduced even after passing the 46 days of policy implementation.
- Routine work of citizens is still going to effect.
- Banks are not getting adequate money.
- At various ATM's, money is not provided in routine and even no money at some ATM's (interval is dissatisfactory).
- E- Payment is getting momentum but still a long way to go.
- People need training to use cashless transactions.
- Even government offices are not well equipped with cashless payment tools/machines.
- People are still unable to withdraw huge amount for the occasions at their home.
- Proper networking facility is creating obstacles in the way of cashless payment.
- Bank employees are burdened with workload showing disinterest in work.

Suggestions

No doubt, the government is making its efforts to relief its citizens and coming with innovative ideas. But there are some basic requirements as mentioned in the problems as well as shortcomings which need considerable focus on the behalf of our honourable government. Following are some suggestions which must be adopted to fulfil the need of the hour and overcome the chaos:

- Proper tracking of people is must so that needy could be provided money and commission agents could be arrested.
- More and more supply of money in each bank is must to fulfil the demand of our citizens.
- Efforts must be made to make each ATM's operative and money should be there in ATM's.
- There must be effort to equip each government office with cashless machine so that people can make their e-payments smoothly.
- For networking purpose, use of satellites can be made instead on relying on towers only so that people can get benefits of e-payment apps.
- Government must put its best effort to train the people at ground level even up to small villages and for such purpose contributions of government officials, teachers, sarpanchs and panchs can be availed.

- More efforts are needed to provide the huge amount meant for special occasions after getting clarified satisfactory about the same.

Conclusion

The move taken by the present central government as announced by our Honourable PM is the biggest move towards demonetization in Indian history in itself. No doubt, Indian citizens have suffered a lot and suffering to some extent even today. Unorganized sector is facing much trouble due to lack of cash with people. Most of the sector has its impact but all the issue mentioned above stand for very short period to short period only. The real picture of India will definitely change and Indian economy will emerge as one of the strongest economy in the world in medium to long period only as forecasted by our PM. So, the Indian citizens will have to wait more for the good days and need to strongly support the PM great move of demonetization.

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