

Demonetization and its impact in Indian Economy

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Abstract

Demonetization refers to the return of a country's legal currency. Demonetization has historically occurred in numerous countries around the world, including Ghana, Nigeria, Australia, the Soviet Union, and Pakistan. Demonetization occurs in India at various times. The most recent demonetization took place on November 8, 2016. The primary goal of demonetization is to minimize corruption, as well as black money and counterfeit cash. My goal in this research paper is to examine the historical backdrop of demonetization in the globe and in India, as well as the impact of demonetization on the Indian economy, such as the influence on the value of the Indian currency, the stock market, and the effect on gross domestic product.

Introduction

Demonetization refers to the process of removing a monetary unit from its legal tender status. Whenever there is a change in the national currency, demonetization is required. The old currency unit must be decommissioned and replaced with a new currency unit. Remonetization is the polar opposite of demonetization, in which a form of payment is reinstated as legal tender. The declaration of 86 percent of currency notes as unlawful money in a matter of seconds on the eve of November 8, 2016 necessitated an instant disruption in people's lives. This movement astonished everyone because it was a significant and unexpected choice that was made without warning.

Fast forward to 1923, and Dr. B R Ambedkar proposed changing currency every ten years to combat inflation and black money in his book 'Problems of Indian Rupee.' Following suit, India's first attempt at demonetization in 1946 was a flop, with only 6.3 percent of high-value currency notes being exchanged. In

2015, Zimbabwe demonetized its currency as its economy crumbled and inflation reached record levels, while Saudi Arabia banned options and futures on the riyal's USD peg in June 2016. Venezuela only banned the 100 Bolivar a fortnight ago, yet the country descended into turmoil and looting. In addition, the Eurozone would stop issuing the 500 Euro note after this year. Furthermore, in 2018, the Eurozone will stop issuing 500 Euro banknotes and replace them with 100 and 200 Euro banknotes. To combat black money, Australia has proposed banning the AUD 100.

History of demonetization of India

The Indian rupee (INR) is the Republic of India's official currency. The rupee is divisible into 100 paises (singular paises), albeit only 50 paisa coins are legal tender as of 2011. India has authority over the currency's issuance. The Reserve Bank of India administers currency in India and draws its authority from the Reserve Bank of India Act, 1934. The rupee is named after the rupiya, a silver coin originally created in the 16th century by Sultan Sher Shah Suri and afterwards perpetuated by the Mughal Empire.

A new symbol was formally adopted in 2010. It was created by combining the Devanagari consonant "र" (ra) with the Latin capital letter "R" (without the vertical bar) (similar to the Rrotunda). The parallel lines at the top (with white space between them) are considered to be a reference to the tricolour Indian flag,[6] as well as a symbol of equality that represents the country's intention to minimize economic imbalance. On July 8, 2011, the first generation of coins bearing the redesigned rupee symbol went into circulation.

In a major move to combat undeclared black money, India's government announced the demonetization of Rs 500 and Rs 1000 banknotes on November 8, 2016, with effect from midnight the same day. Apart from battling black money, the declared goal is to check counterfeit cash (which is used to fund terrorism) and corruption. Since November 10, 2016, a new redesigned series of Rs500 banknotes, as well as a new denomination of Rs 2000 banknote, have been in circulation. In the next months, the new redesigned series is expected to be introduced to the currency denominations of Rs1000, Rs100, and Rs50.

Historical Backgrounds of Demonetization in India:

- The abrupt demonetization of Rs 500 and Rs 1,000 currency notes is nothing new. In January 1946, Rs 1,000 and higher value notes were demonetized for the first time, and then again in 1978.
- The Rs 10,000 note, first produced in 1938 and then again in 1954, was the biggest denomination note ever created by the Reserve Bank of India. According to RBI records, these notes were demonetized in January 1946 and again in January 1978. Prior to January 1946, bank notes in the denominations of Rs 1,000 and Rs 10,000 were in circulation.
- In 1954, higher-denomination banknotes of Rs 1,000, Rs 5,000, and Rs 10,000 were reintroduced, however they were all demonetized in January 1978. In November 2000, the Rs 1,000 note was reintroduced. In October 1987, the Rs 500 note was introduced into circulation.
- The action was therefore justified as a means of limiting the amount of banknotes in circulation as a result of inflation. The Rs 2,000 currency note, on the other hand, is being launched for the first time.
- Prime Minister Narendra Modi said a new Rs 500 note and a Rs. 2,000 denomination currency will be launched on November 10th, making the already circulated Rs 500 and Rs 1,000 notes worthless.

- Symbols signifying science and technology, advancement, and inclination to Indian art styles appeared on banknotes issued during this time period.
- In the year 1980, the legend Satyameva Jayate — ‘truth alone shall prevail’ — was incorporated under the national emblem for the first time.
- The picture of Mahatma Gandhi and the Asoka Pillar watermark were featured on the Rs 500 currency in October 1987. The Mahatma Gandhi (MG) series banknotes were released in November 2001 and came in denominations of Rs 5, Rs 10 (June 1996), Rs 20 (August 2001), Rs 50 (March 1997), Rs 100 (June 1996), Rs 500 (October 1997), and Rs 1,000. (November 2000).
- In comparison to the 1996 MG series, the Mahatma Gandhi Series - 2005 bank notes were issued in denominations of Rs 10, Rs 20, Rs 50, Rs 100, Rs 500, and Rs 1,000 and included certain additional/new security measures.
- In August 2005, the Rs 50 and Rs 100 banknotes were issued, followed by the Rs 500 and Rs 1,000 denominations in October 2005, and the Rs 10 and Rs 20 denominations in April and August 2006, respectively.

Effect of Demonetization on Indian Currency:

Following the demonetization of Indian currency on November 8, 2016, the rupee has weakened against the currencies of 96 countries or economies. The rupee has strengthened against 60 currencies and has the same exchange rate with five others out of 161 countries' currencies. If we look at the data for the six months leading up to demonetization, from May 8 to November 8, 2016, the rupee outperformed 125 currencies. However, the rupee has become stronger than only 47 currencies after a 26-day ban on Rs 500 and Rs 1000 notes.

Rupee has lost 2.66 percent against the US Dollar (\$), falling from 66.40 to 68.17 INR per US Dollar unit. Rupee has weakened against a number of popular currencies, including the British Pound, Canadian Dollar, and Hong Kong Dollar. However, it outperformed the Euro, the Australian Dollar, the Swiss Franc, the Singapore Dollar, and the Japanese Yen. The Indian rupee (INR) has weakened against the currencies of other South Asian countries, including the Pakistani rupee, Sri Lankan rupee, Bangladeshi taka, and Nepalese rupee.

IMPACT OF DEMONETIZATION ON INDIAN ECONOMY

1. Impact on the Parallel Economy:

The removal of these 500 and 1000 rupee notes and their replacement with new 500 and 2000 rupee notes is expected to: - remove black money from the economy because owners will be unable to deposit them in banks; - temporarily halt the circulation of large amounts of counterfeit currency; and - curb funding for anti-social elements such as smuggling, terrorism, and espionage.

2. Effects on Farmers:

Demonetization was implemented during the Rabi planting season, obstructing farmers' ability to purchase seeds and plants, and so affecting food output. The statistics for the Rabi sowing season is presented in the appended table, which shows that the area has expanded by roughly 9% this season. There could not have been any rise in the sowing season if there had been any hardship in rural commercial dealings.

3. Effect on Food Sector:

Foods saw the most rise during the demonetization week, at 19 percent from the previous year. Packaged foodstuff and cooking medium showed a significant increase within the food basket. Tea, packaged Atta and rice, baby food, milk food, and unrefined oil all played a role in the expansion.

4. Effect on Gross Domestic Product

The country's GDP will suffer a "significantly negative impact" as a result of demonetization. It has been harshly critical of the demonetization decision, predicting a 2% loss in the country's GDP as a result. In response to a question at a press conference on Wednesday, Finance Minister Arun Jaitley ruled out any short-term negative impact of demonetization on growth, arguing that it will benefit growth in the long run because "all of this will impact the size of the GDP itself because more transactions that were happening outside the (formal) economy will get into the economy itself."

Conclusion

Within the two months it had, the RBI could have adequately replaced up to 75 percent of the demonetized value with the new 500 and 1000 notes. People in India are extremely adaptable, as seen by the widespread acceptance for the switch to e-wallets. Even in the first week after demonetization, some sectors of the economy grew, while others, such as the impulse purchase sector (biscuits, soft drinks, and so on), shrank. Farmers and Rabi sowing appear unaffected, as seen by the increased sowing area. The Indian economy is currently forming a 'V' shape as a result of demonetization. Following demonetization, digital payment is on the rise. Everyone is attempting to implement digital payment. The amount of black money in the Indian economy has decreased.

In India, corruption has decreased. The value of a bank deposit may rise in the near term, but it will decline in the long run. India's gross domestic product will fall as a result of demonetization.