



DEMONETIZATION TO REMONETIZATION- IMPACT AND CHALLENGES

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ABSTRACT

Demonetization refers to Withdrawal of a particular form of currency from circulation. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be removed and substituted with a new currency unit. The currency was demonetized first time in 1946 and second time in 1978. On Nov. 2016 the currency is demonetized third time by the present government. This is the bold step taken by the govt. for the betterment of the economy and country. In this paper I want to discuss the impact of recent demonetization on the Indian system.. Remonetization is still under process, as opinions from experts indicates that it takes more than three to four months for the economy to sustain The financial advisors says the Remonetization is near complete in less than 90 days according to Shaktikant Das-Secretary, Economic Affairs. This paper attempts to explore the concept of demonetization, Remonetization and its impact on economy.

Keywords: demonetization, currency, stabilization, remonetization, Black Money, Counterfeit Currency, Corruption

Introduction

In his 40-minute address, Modi said that notes of Rs. 500 and Rs. 1000 would merely be “just worthless pieces of paper”. Modi talked about how India has become the “bright spot” in the global economy and the government’s dedication to fight against poverty and initiatives towards participation of the poor in the benefits of economic progress.

The Reserve Bank of India, later in its press conference, said that India remains a cash based economy hence the circulation of Fake Indian Currency Notes continues to be a menace. In order to contain the rising incidence of fake notes and black money, the scheme to withdraw these currency notes has been introduced.

Several impacts of this decision can be ascertained. Although people with black money obviously stands the most affected, there are several implications that have to be faced by the average middle class person, farmers, banks and the economy as a whole.

Although there will be an apparent inconvenience to the common man initially, given the short span of time to get these currency notes exchanged or deposited in banks and post offices, but he/she is expected to adapt to the new currency system in a reasonable time.



Rural area farmers will have slightly more inconvenience keeping in mind that this is the Rabi crop harvest season, where the farmer must have earned cash for their harvest. This concern was raised by the Congress spokesperson Randeep Surjewalla.

Also, in rural areas the exchange and deposit system can be expected to take a long time in case there is a bank in the village and inconvenience in terms of transportation, additional expenses and time is easily foreseeable in case there is no bank in the village and the people have to go to the city for this purpose.

The banks, however, are expected to experience two types of problems. One is the logistical problem of handling all the money in case a large number of people choose the easier way of depositing all their cash in their bank accounts or of providing smaller denomination currency notes in case there is a huge demand for withdraw or exchange.

The other problem is the managerial difficulty of handling long queues and the overburden of work in the next couple of days. This expectation gave rise to the government's decision of shutting down banks for public dealings for one day and instead let them deal exclusively with issues relating to deposit or exchange the demonetized currency notes.

In terms of the impact on the economy, there has been speculation about deflation in the economy by one set of people due to expected fall in corruption and black money while the other expects inflation to take place due to speculated increase in investment of Gold, real estate and foreign currency.

Narendra Modi's decision has also had its share of criticisms and concerns already. These span from the inconvenience caused to the common man to the assertion that the plan does not solve the problem at all.

The obvious concern raised is of the impending inconvenience which will be caused to common man due to the operation of this decision.

ATMs will not operable on 9th and 10th November, only 50 days are provided for exchanging and depositing notes in banks and post offices, and even though officially some emergency places like hospitals, train/bus bookings, petrol pumps, etc. are supposed to accept these invalid OHD notes till 11th November midnight, in reality even these people will avoid taking these notes since petrol pumps and retail outlets will have to keep a record of every single transaction involving these OHD notes.



The Rs. 2000 and new Rs. 500 currency notes will be circulated in limited numbers. National Highways are made toll tax free till November 11th after seeing a day of delays and jams on these highways owing to the lack of smaller currency with people.

Considering the fact that only about half the population of India has a bank account (World Bank report), there is a substantial section of the society that will find it difficult to get their currency exchanged.

In the FAQs provided on the RBI website, it states that in case a person does not hold a bank account, he/she can open one now and then transact through her account. However, this doesn't seem like an excellent plan. For instance, some expected problems of opening new bank accounts can be lack of incentive and lack of formal identification papers.

Some other concerns that came to light was that even though people applauded the initiative, they were unsatisfied with the small window of time provided for both legal transaction of higher denomination currency and the short span of 50 days provided for exchanging or depositing your currency notes at bank branches or post offices.

Challenges :

The most interesting thing regarding the demonetization was that people had devised various unique methods for transforming their black money in to white one. Some of these methods were as follows –

- Depositing money in the accounts of their poor relatives and friends.
- Enticing the people with some percentage of money for exchange.
- Asking their employees to stand in the long queues in front of Banks and ATMs for getting money exchanged.
- Hiring labors for some Rupees ranging from Rs 500/- to 700/- for becoming the part of long queues in front of banks/ ATMs.
- Converting black money in to gold.
- Paying a few months salaries in advance.
- Paying back loans forcibly.
- Using their influence / links with bank employees and so on.



Impact of Demonetization on Indian Society/ Economy –

We shall see a great impact of this move of the Central Govt on Indian Society and Economy. The first impact shall be that people will have lower expenditure power. With that they will not be able to purchase luxurious things.

There shall be no ostentatious expenditures on marriages and other ceremonies. So the society will grow lesser materialistic and people more prudent. With the fake money destroyed, Indian economy will see a big boom and the so-far-booming-real-estate-sector shall fall on the ground.

The things may be cheaper. Indian Currency may get respect at the international market. There may be a great check on the terror-related funding and therefore on terrorist activities. Corruption shall be down to a great extent as people will stop the tendency of accumulating money using wrong means.

This big move will certainly abridge the gap between the haves and the have-nots. However, there may be some difficulties for a couple of months. But this inconvenience shall be temporary and for short-term.

After November 2016 - a step towards Remonetization- what happened

- The Exercise of Remonetization which has began after scrapping the old Rs. 500 and 1000 notes on 8th Nov, 2016 is “**nearly complete**” said Economic Affairs Secretary Shaktikanta Das.
- The Reserve Bank of India (RBI) said on Feb 8, Wednesday it will remove the withdrawal limit from ATMs and savings accounts from March 13, with the cash crunch triggered by the government’s demonetization exercise easing across the country.
- Presently Cash withdrawal limit from savings bank accounts will be relaxed to Rs 50,000 from February 20 to March 13, said RBI deputy governor R Gandhi after the central bank announced the sixth bi-monthly monetary policy review.

The Version of World Baank

World Bank released January 2017 Global Economic Prospects report which mentioned that the growth will be carried on because obstacles to activity have moved away in emerging market and also for developing economy commodity exporters. It says that the obstacles receded when the domestic demand remains solid among emerging and developing commodity markets. The report also highlights that the growth in advanced economies is expected to edge up to 1.8 per cent in 2017.



The World Bank's report has decelerated India's growth to 7 per cent for 2016-17 from its previous estimate of 7.6 per cent. In its report, the bank said the growth rate of the country slowed due to the immediate withdrawal of a large volume of currency in circulation (demonetization) in November 2016 and subsequent replacement with new bank notes, post-crisis 2016 the global economy will accelerate. The World Bank's report has decelerated India's growth to 7 per cent would regain momentum in the following years with 7.6 and 7.8 percent. growth in commodity importers was projected to remain broadly stable.

Conclusions

- It may be anticipated that any impact on economic activity and GDP will be temporary, and the long-term benefits such as an increase in cashless activity will be more permanent.
- Cashless Apps: cashless methods of payment. Taxi services, rental places and small shops have turned to apps that deal with cashless transactions.
- Less than one-third of Indians have access to financial institutions and most banks are concentrated in cities, most Indians live in villages. Forcing businesses to use banks and digital payments will help to bring them inside the tax grab is a depiction of prospects for the economy.
- It also depicts that most of the businesses have found ways to avoid tax but the decision of cashless/ digital transaction has been an attack on wrong business doing.
- Providing schemes such as discounts, cash back or points would certainly permit people to use plastic cards and online payments by which paper currency would be reduced and it makes a habit among the people to use technology for their financial dealings.

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