



**Magadh Mahila College**  
Patna University, Patna

# **DEMONITIZATION**

**CC-10 INDIAN ECONOMY**

**ISSUES**

**AND POLICIES -2**

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# MEANING OF DEMONITIZATION

- Demonitization is the the act of stripping a currency unit of its status as “LEGAL TENDER”.

DEMONITIZATION INVOLVE:

“EITHER INTRODUCING NEW NOTES OR COINS OF THE SAME CURRENCY OR COMPLETELY REPLACING THE OLD CURRENCY WITH NEW CURRENCY.”



# DEMONITIZATION HISTORY

Demonitization move was undertaken for the very first time in india in 1946 in which RBI demonitized RS 1,000 and RS 10,000 notes,however both these notes were reintroduced in 1954 with an additional of RS 5,000 notes,but were again demonitized in 1978 by MORARJI DESAI government under the HIGHER DENOMINATION BANK NOTE ACT 1978.





**RBI Rs.10000 Note in, 1938**



**RBI, Rs 1000 Note in 1954**



**RBI Rs. 5000 Note in 1954**



# DEMONITIZATION BY PM NARENDRA MODI



On 8<sup>th</sup> November 2016, evening PM NARENDRA MODI announced that “after midnight of 8<sup>th</sup> November, Rs 500 and Rs 1000 will no longer be valid”. This announcement came as a shock to all Indians, as these were the currencies in which most of the cash was held.

THE DECLARATION STATED THAT OLD NOTES COULD BE EXCHANGE THROUGH BANKS AND POST OFFICES TILL DEC.30,2016.



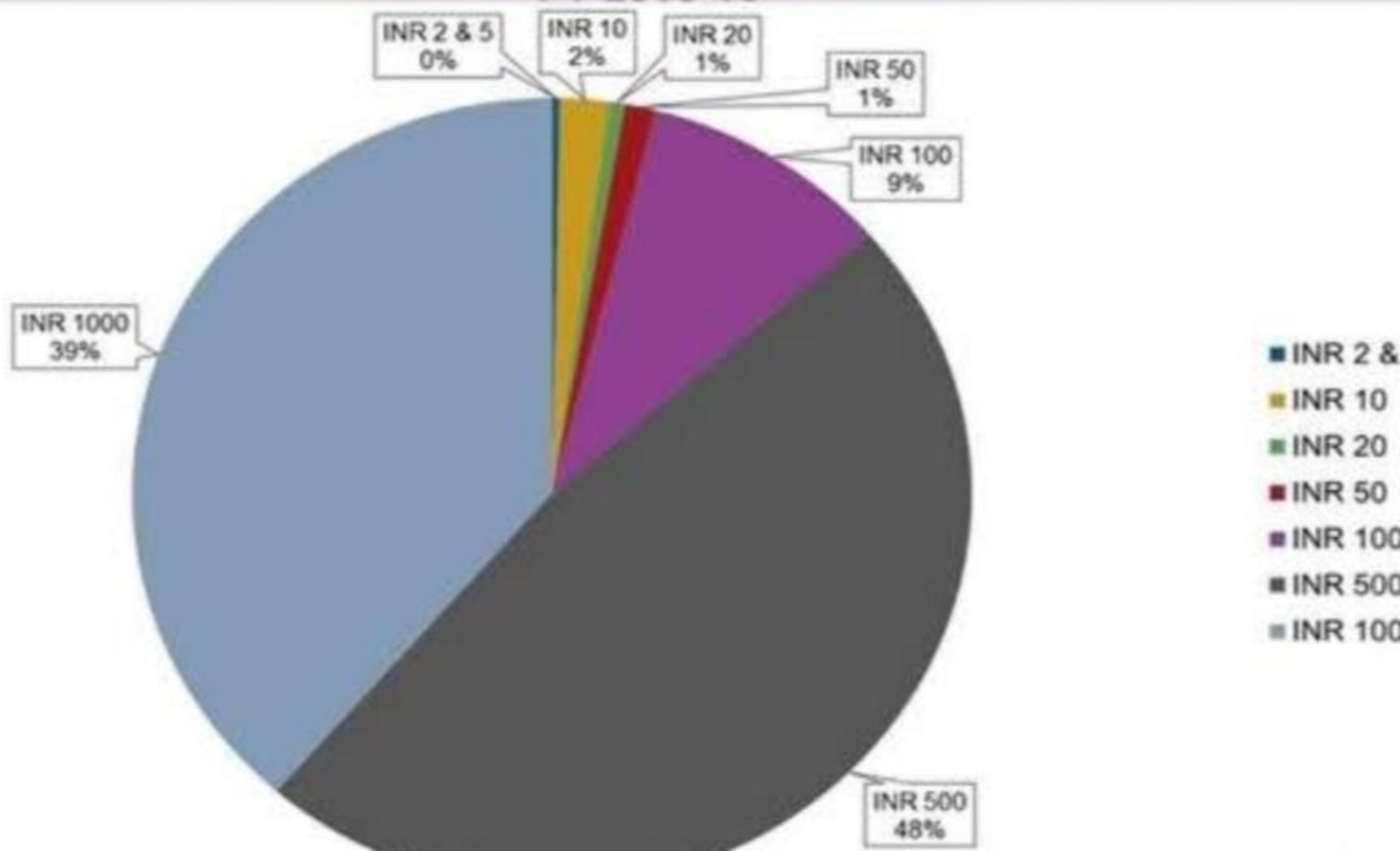
# REACTION OF THE PEOPLE

- **MIXED RESPONSE**-SOME PEOPLE ADMIRED THE STEP,WHILE OTHER CRITICIZED IT.
- FORMER SENIOR VICE PRESIDENT AND CHIEF ECONOMIST OF THE WORLD BANK **KAUSHIK BASU** CALLED IT A 'MAJOR MISTAKE' AND SAID THE DAMAGE IS LIKELY TO BE MUCH GREATER THAN ANY POSSIBLE BENEFIT.
- THE INDIAN AMERICAN ECONOMIST **JAGDISH BHAGWATI** PRAISED THE DEMONITTIZATION.





# Percentage share of Denominations before Demonetization



# REASON BEHIND DEMONITIZATION

- TO CURB THE MENACE OF BLACK MONEY.
- TO ERADICATE CURRUPTION.
- TO STOP THE CIRCULATION OF COUNTERFEIT CURRENCY.
- TO FIGHT TAX EVASION.
- FOR COMBATING INFLATION
- TO ESTABLISH A CASHLESS ECONOMY  
**DIGITAL INDIA.**





The background of the slide features several tall stacks of gold coins. The coins are arranged on a surface that appears to be a financial chart or graph with a grid. A jagged black line, representing a fluctuating data series, is drawn across the grid. The overall lighting is warm and golden, matching the color of the coins.

# IMPACT of DEMONETIZATION



# IMPACT OF DEMONITIZATION OF PEOPLE THROUGHOUT THE COUNTRY

Be it the tribal hinterland or urban areas, demonitization has affected every nook and corner of the Indian economy. All economic activities related to production, consumption and exchange have been affected.

THERE ARE SOME POSITIVE AND NEGATIVE IMPACT OF DEMONITIZATION.



# CONTI...

## POSITIVE IMPACT

- Demonitization has given fillip to cashless society/economy.
- Common men women has started using technology effectively mostly in the form of digital payment,e-wallet and online transaction.
- Corruption officials and black money hoarders have been caught redhanded and punitive measure have been taken against them.
- Large amount of black money has been unearthed throughout the country and the unearthed black money has helped in filling the gov. coffers in the term of tax revenue.



- Fall in real estate price this is primarily because of the real estate sector is largely dependent on cash transaction and industries associated with real estate market will be badly hit by this move (unaccounted money play an important role in boosting the real estate sector).
- Decline in cases of TAX EVASION.
- Decline in TERRORISM ACTIVITY in the country.
- By giving importance to soft money , risk associated with handling hard money can be avoided or minimised.
- More people have been included in the eco.network(through digital payment) in such a short duration,this network mainly consist of individual or household that are a part of informal /unorganised sector.



- Seeing the plight of the poor people and lower middle classes ,many religies institution have kept there donation boxes open for the people ,who want cannot meet there daily neccieties.
- TRAFFICKING INDUSTRY has been hit by demonitization and multiple agencies that are involved in the trafficking of minors have also been hit by demonitization halting the trade completely.

## NEGATIVE IMPACT:

- Cash crunch in the economy came as a real blow to 1.3 billion citizens and totally destabilised all the economic activities in the country.
- CASH SHORTAGE in ATM and BANK.







- Cash crunch is an issue but in addition to it ,finding change for Rs 2000 has exacerbated the economic condition in the economy.
- Daily wage earners like construction workers,street vendors and hawkers have been badly hit by demonitization.





- People are facing difficulty in carrying out small transaction example like purchasing milk,vegetable other groceries etc.
- Alteration among people as well as bank officials have been reported from across the country.
- Agriculture ,fishing are also bearing the brunt of demonitization.
- Petrol pumps and hospitals were odered to let people make payment in old currency were turned away.
- RBI will have to bear a cost of more than 12,000 crores as replacement expence for new currency, operating cost related to ATM and recalibration of ATM.



# SHORT TERM IMPACT

- Possibility of economic slowdown in the short run if investment and production activities are not normalised in the short run.
- Short term recession in sector like real estate, construction material, textile handicraft etc.
- Decline in demand or sluggish demand is likely in the short run.
- Decrease in interest rate due to excess cash in the bank vaults.
- GDP formation will be effected with the reduction in consumption demand.



# LONG TERM IMPACT

- Cashless society could enable financial inclusion at a faster rate in the long run .
- If demonitization is properly implemented and followed up then it can improve the fiscal position of the country.
- It has been predicted that there could be fall in the bank interest ,real estate prices in the long run due to proper tax compliance , transparency ,and better tax collection.
- Rise in bank saving will be seen in the long run.
- Substantial increase in the DEMAND OF DIGITAL TRANSACTION SYSTEM such as E-WALLET,E-BANKING etc.



# WHY Rs 2000 notes were introduced by RBI?

- It is easier ,convenient and less time consuming to print high value notes rather than a large number of small denomination notes.
- Reports says , “ the RBI will be able to track the new notes as they are starting afresh and keep an accounts of notes better”.
- ATM have the capacity to hold a limited number of notes ,therefore Rs2000 notes will help to tide over the problem of limited capacity.
- MR.DEBROY,member of the NITI Aayog said “cost wise,a high denomination note is more effective ,the printing cost is lower and it last longer”.





# CONCLUSION

Even though it is evident from above, that due to demonitization our country faced a number of problems but the advantages are much dominating which will be seen in the long term as demonitization we are moving toward digital economy which has the potential to change the shape of our country for the betterment of every citizen of india.





**THANK YOU**

