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An Insight into Demonitisation in India - A Year After

Dr. Kavita G. Kalkoti

Associate Prof., Recognised Guide for Ph D in Commerce (Banking and Finance), University of Mumbai.

Nagindas Khandwala College, Bhavishya Bharat Campus,Mumbai-64.

Introduction

Demonitisation is an act by which government declares that a currency will cease to be legal tender and the current form will be replaced by new forms of currency – notes or coins. Nations demonetize their local units of currency for various aims:

- to combat inflation, for example in 2015 Zimbabwe demonitised its dollar to – hyperinflation which was recorded at a mindboggling 231,000,000%. It entailed using US dollar, Botswana pula and South African rand as the country's legal currency and removing their dollar from the financial system to stabilise the economy.
- to combat corruption and crime (counterfeiting, tax evasion), for example in 2016 India demonitised?1000 and ?500 notes. This accounted for 86% of money transactions in the economy.
- to discourage a cash-dependent economy
- to facilitate trade, for example when in 2002 countries of the European Union wanted to introduce euro as their common as well as local currency, the German mark, French franc, Italian lira were demonitised. These national currencies remained convertible to euro at definite rates for smote transition.

The dramatic announcement that ?1000 and ?500 notes would no longer be valid was made on 8 November 2016 by Prime Minister Narendra Modi. A small time period of 9 November to 31 December was given to deposit all existing notes in banks. This had taken Indians which include those living in India and those living abroad. Demonetisation was a strong statement of intent to formalize the economy.

Methodology

The paper will evaluate various aspects of the economy in this one year past demonitisation. Major indicators that depict economic patterns are taken into consideration for this. Reports of banks, private research agencies, RBI, government data is studied. Reports are chosen from various sources to eliminate chances of bias that may influence the study results.