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Remonetisation: An Impact on Indian Economics and Day to Day Life

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Abstract - From when the “Remonetisation” came into action, all the economic pillar factors of our country and currency affairs, which were greatly affected due to demonetisation are now in latest trend and in every financial speaking tongue.

The purpose of this research paper is to analyze the impact of remonetisation in India. The problem of demonetization was considerably solved by remonetizing. This paper represents an analysis on the process of remonetisation as well as demonetization its impact in India’s GDP and its political and economic environment. This paper examines the level of remonetisation process reached in the Indian Economy and its benefits. It is noted that the reorientation of exchange rate policy encourages the change of portfolio of economics agents increasing preferences for deposits and loans in local currency.

In short, the obtained results due to the combined effects of the policies of executive authority and Reserve Bank of India showing achievement in improving the effectiveness of monetary and exchange rate policy, deepening financial intermediation and reducing exchange rate risk for economic agents. In that sense, it is necessary to deepen and consolidate the process of remonetisation to achieve stability in the long run.

KEYWORDS: 8th November, Remonetisation, Demonetization, digitalisation, cashless economy.

I. INTRODUCTION

Before we talk about “Remonetisation”, we should know what the remonetisation is?

Remonetisation is the act of process remonetising, or restoring the status of legal tender. In simple terms, the government wants to restore the currency notes or something with equivalent value to its formal position as legal tender.

On 8th November 2016, at around 8 p.m., the Prime Minister of India, in a shock announcement, declared that 86% of currency notes in circulation- notes denominated Rs. 500 and 1000 Rs. – are no longer legal tender from midnight. Instead new notes with denomination Rs.500 and Rs.2000 will be issued. The press called it as this “demonetization”, although “remonetisation” seems to be a better word.

Because of demonetization there were lots of chaotic hustle among people who were engaged in small retail businesses, has been an onion and potato dealers and running their family business, their business went on silent mode. That time traders were not occupied with new currency notes to give the farmers in exchange of goods and a hand estimate that each vegetable and fruit market in the country would be suffering around 8-10 crore loss daily and like this many more markets were suffered with the same problem that time. In such situation “Remonetizing” is a relief word, which acted as the only way out of “Demonetization” disaster.

II. Economic paradox of Remonetization

Economic remonetisation does not make any remarkable growth in GDP as expected. According to the news the cash squeezed by the government would be limited by April 2017 only (remonetisation impact). As far as the economical analysis and research concerned, the impact of demonetization for our economy has not been very appreciable. As 25% of currency generated by RBI, get burnt destroyed and thus didn't come back to the Reserve Bank of India. Thus is a complete loss of money, time and also our currency.

Some economist stated that this demonetization step would ruin our financial system our national income our currency and GDP will fall down brutally. But some optimistic economist are also there who were saying that this is the right step to discourage black money and block such corridors who are responsible for such kind of activities. Demonetization not only left its impact on GDP the growth of GDP seems to be slow down by 0.25% to 0.5% which is said to be a long term beneficial clause in the remonetisation scheme.

III. Demonetization to digital Remonetization

There was a very positive side of this remonetisation that it had not just restored or reissued the currency but also gave India the new ways of purchasing and depositing savings. All these transitions are now not limited in hand to hand transfer of money. Through this remonetisation move, the government introduced and encouraged the digitalisation of transactions i.e., cashless transactions.

From the customer's prospective the adoption to cashless transaction looks like more a force than a choice, primary due to lack of cash availability in banks. However, with the continued support and protection for this move from our government, India has every possibility to emerge as a cashless economy. For a country, as dense and diverse as India, digitalization can be a saving grace.

Although, before this demonetization step most of the people had knowledge about E-Banking and digital payments but they were not much familiar and used to such means and above all they were not seems to trust this system much. But due to demonetization this became the biggest source of transactions and payments. “Remonetisation” helped India in not just recovering from demonetizing but also assisted it to digitalised itself and change the prospectus about E-Banking and digital payments. By this digital electronic remonetisation people kept less cash with them.

Historically India has a great sense of adoption. The best example is the mobile phone. Prepaid digital wallets are the best options available today. Prepaid will provide multi-utility benefit and convenience to end users. There is a fantastic opportunity for prepaid digital wallets in India when a men's everyday life from entertainment to unwind with a book has all gone to the digital platform, it is only natural for payments to also go the same route.

IV. Role “yield” on the cashless ground

Apart from usually helping consumer on transaction, our serious core objective of the product has been and will continue to be “Connecting consumer and their neighbourhood merchant”.

The yield NFC ecosystem was built with a clear conscience – to empower other business houses to sell, to service and we at yield continue ensure to make our business partners more powerful than yield. Yield aims to help small/medium business compete with much bigger and more organized business of world. By empowering merchant to seamlessly adopt the cashless model using Yield ecosystem, we are doing our bit in making India a successful cashless economy.

V. Effect of Remonetization Politically and Economically

➤ Money supply

With the older 500 and 1000 rupees notes being scrapped, until the new 500 and 2000 rupees notes get widely circulated in the market, money supply was significantly reduced in the short run. To the extent that black money (which is not counterfeit) does not re-enter the system, reserve money and hence money supply decreased permanently. However gradually as the new notes get circulated in the market and the mismatch gets corrected, money supply picked up to a sufficient level. With this whole process, the following effects came in light, which were:

- 100% elimination of fake currency out of circulation. This is probably one of the greatest changes that are taking place.
- Cash to create chaos and terror lying with terrorist, Maoists, Naxalites, jihadists have gone wasted.
- Around 55 lakhs money disputes were settled in one day. This was the big income source.
- According to RBI 11.5 lakh crore money have seen deposits in banks.
- Small vendors started going digital and using App’s digital form of transactions and digital wallets.

Considering the all above points, the demonetisation although resulted in some loss and inconvenience in economy and society, but government through process of remonetisation and digitalisation tried its best to rectify it and make things more proper, convenient and stronger. After money came into circulation, it is our responsibility that there will be proper uses of currency, no tax evasion and no black money, by all these efforts we can make it more effective positively.

➤ Identification and Taxation

Because of demonetization move a lot of money has come into the banking system. Cash has an anonymity attached to it. But with this digital remonetisation step what comes into the banking system gets identified with person and therefore its impact on taxations and revenue collection is already been seen.

Second were that there is a lot of counterfeiting happening from across the border and there is a lot of “black money” with Indians. Now there is a lot of political rhetoric around “black money” but Indians have this imagery that everyone doing immoral or illegal things with their finance has hidden a lot of currency notes in the water tanks of their homes. Now all that currency notes and all that imaginary thoughts are in rivers.

VI. Political approach on Remonetization

Finance Minister Arun Jaitley also managed to throw some lights into it. Mr. Jaitley gave solid facts on the effect on the “remonetisation” and slammed opposition. According to him, “With the critical part of the remonetisation which is already behind us, there has been no significant impact on mass. If there are, it should certainly be much better in the weeks and months to come. He said that assessment can be unreal, but revenue is real. Of course, there would be areas that would be adversely impacted but what was being predicted by the critics has to have rationale with the revenue collections.”

He explained that huge amount of money has come to the banking system. Thus, the impact on taxation and revenue collection is already visible. The lending capacity of banks has increased significantly. Also, we have some numbers with us central indirect taxes increased; by 26.2% as of Nov. 30 this also includes increase in excise duty by 43.5% service tax by 25.7% and customs duty by 5.6%. He also compared the collection of Nov.2016, which was much higher than that of Nov. 2015.

VII. Conclusion

From the above analysis, it can be easily concluded that the year 2017 is an important milestone for India and would mark transition from a largely cash economy to a less cash and a more digital economy. But the buzzwords like “less cash”, “cashless” and “digital” do not really convey the range and diversity of the transition. It is actually a transition to a new social and behavioural pattern. Migrating from a cash economy to a digital economy requires a big behavioural and social shift, and a recast of the whole mindset.

The demonetisation undertaken by the government was a large shock to the economy. The impact of the shock in the medium term was a function of how much of the currency will be replaced at the end of the replacement process and the extent to which currency in circulation is extinguished. While it has been argued that the cash that would be extinguished would be “black money” and hence, should be rightfully extinguished to set right the perverse incentive structure in the economy, this argument is based more on impressions rather than on facts. A surge in non-cash transactions through digital options such as mobile wallets and debit cards is a clear sign that India is gradually embracing the cashless economy, but it remains to be seen if this will continue when new currency notes came into circulation.

However, one of the major concerns would be digital security. It may be noted that to have a smooth transition to a digital economy, the government needs to have a policy of digital security. A strong digital security and low risk will enhance remonetisation truly and spread of digital/cashless economy.

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